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May 28th–June 3rd 2005 www.economist.com

After the filibuster deal
PAGES 13 AND 31
Hedge funds and their troubles
PAGE 71
Germany's surprise election
PAGES 47 AND 51
Jung Chang's biography of Mao
PAGE 81

A song for Europe

(to the tune of La Marseillaise, in French or Dutch)

ONLINE FEATURES

Cities Guide Go
Country Briefings Go
Audio interviews Go
Classifieds Go

PRINT EDITION

Full contents
Enlarge current cover
Past issues/regional covers

GLOBAL AGENDA
POLITICS THIS WEEK
BUSINESS THIS WEEK
OPINION
Leaders
Letters
WORLD
United States
The Americas
Asia
Middle East & Africa
Europe
Britain
Country Briefings
Cities Guide
SURVEYS
BUSINESS
Management Reading
Business Education
Executive Dialogue
FINANCE & ECONOMICS
Economics Focus
Economics A-Z
SCIENCE & TECHNOLOGY
Technology Quarterly
PEOPLE
Obituary
BOOKS & ARTS
Style Guide
MARKETS & DATA
Weekly Indicators
Currencies
Big Mac Index
DIVERSIONS
RESEARCH TOOLS
CLASSIFIEDS
DELIVERY OPTIONS
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RSS Feeds

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A song for Europe

No would be the right answer in next week's French and Dutch referendums—and a good one for Europe ... More on this week's lead article

Previous print editions
May 21st 2005
May 14th 2005
May 7th 2005
Apr 30th 2005
Apr 23rd 2005
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The world this week

Politics this week
Business this week

Leaders

Europe's referendums
A song for Europe

German elections
Exit Schröder, enter Merkel?

Philanthropy
Giving while living

After the filibuster deal
Lessons to be learned

Internet regulation
Why a light touch is best

Democracy in the Middle East
Now please vacate your thrones

Letters

On trade with China, nuclear weapons, Egypt, energy, Ford and General Motors, Canada, football

Special Report

France and the EU
A severe crise d'identité

United States

Congress
A surprise from the Senate

George Bush's judges
Three steps forward

Richard Daley and Rod Blagojevich
Great balls of fire

The housing market
Frenzied froth

Policing and Tasers
Zap and protect?

This sporting life
In praise of noodling

Bombs and medicine
Looking the other way

Lexington
Purgatory without end

The Americas

Mexico
Will the real Andrés Manuel López Obrador please stand up?

Canada
After the vote

Cuba's opposition
Dissent and disagreement

Dominican Republic
Half way back

Chile's army
Frozen in time

Asia

Pakistan's leader
Getting comfy with the general

India and Pakistan
In from the cold

Mongolia
Faltering steppes

Indonesia

Business

The textile industry
The great stitch-up

Russian steel
Looking abroad

Railways in the new EU
Huffing and puffing

German business and private equity
Locust versus locust

South African gold
Joke over

Telecoms regulation
Spectrum of opinion

Internet telephony
Emergency measures

Face value
The Amazon's Texan saviour

Finance & Economics

Hedge funds
Dead, or just resting?

German capital markets
The taming of Rolf Breuer

Europe's and America's economies
Out of kilter

Japan's economy
Land of the three mistakes

Central banking
A horse, not a camel

India's stockmarket
Contumacious fetishism

South Africa's banks
Banking on the unbanked

Foreign aid
Those stingy Americans

Economics focus
Falling out of favour

Science & Technology

Spaceflight
Objective, moon

Going to the moon
Paper spacecraft

Psychopathy
Original sinners?

Evolution
Not spineless

Books & Arts

Mao Zedong
Homo sanguinarius

English memoirs
Woman of substance

Warnings to parents
Watch TV

The Spanish Armada
Evermore in the main

Horse racing
Turf accounting

At last, progress

China
Plastic fantastic

Japan's farmers
Facing the scythe?

Middle East & Africa

Lebanon
It's the same old sectarian system—but without the Syrians

Iran's presidential election
Who will run, let alone win?

Iraq
Might the Sunni Arabs relent?

South Africa's unemployment
Unions v jobs

Europe

Germany
Schröder's surprise

Merkel's rise
An iron-curtain lady

Portugal and Greece
The cost of spectator sports

Italian politics
Oopsadaisy!

The Black Sea
Oil over troubled waters

Charlemagne
Another fine mess

Britain

Housing market
Gordon Brown's house sale

Home education
When Mum is Miss

Legal costs
Bills and briefs

Cornish tourism
Change in the air

The BBC
The kindest cut

Banking
Tight-fisted

Identity cards
The card is coming

Tory leadership rules
Chastising the faithful

Bagehot
Tony Blair's battle for Europe

Edward Ruscha, American artist
Write-on man

Obituary

Obituary
Albert Marshall

Economic and Financial Indicators

Overview

Output, demand and jobs

Prices and wages

GDP forecasts

Money and interest rates

The Economist commodity price index

Stockmarkets

Trade, exchange rates and budgets

Exchange-rate forecasts

Emerging-Market Indicators

Overview

Sexual equality

Economy

Financial markets

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Business / Consumer
WSI Internet - Start Your Own Business
Business Opportunity - WSI Internet Start Your Own Busines....

Tenders
Request for Proposals: Transaction Advisory Services for the Privatisation of the Botswana Telecommunications Corporation

Jobs
Senior Manager & Francophone Translator/Proof Reader
VACANCIES AT THE AFRICAN PEER REVIEW MECHANISM (APRM)

Tenders
Republic of Ghana Ministry of Trade, Industry, PSD & PSI - Request for Expression of Interest: Branding Strategy
....

Jobs
Advisor, Private Sector Operations Department; 2 positions
The OPEC Fund for International Development The ....

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Politics this week

May 26th 2005
From The Economist print edition

Exit Schröder?

AP

Germany's Chancellor Gerhard Schröder said he would try to bring forward elections after his party suffered a crushing defeat in the state of North Rhine-Westphalia. Polls suggest he is very likely to be defeated, even though his personal rating is higher than that of Angela Merkel, tipped to be selected as his challenger from the centre-right.

See article

Prosecutors opened a criminal case against **Russia**'s electric-power monopoly after Moscow suffered a serious blackout, caused by a fire at a substation. Anatoly Chubais, a liberal politician who heads the Unified Energy System, was summoned by the prosecutor-general for questioning; Vladimir Putin accused the monopoly of neglect.

A veteran **Italian** journalist, Oriana Fallaci, is to face trial for alleged insults to Islam in her latest book. An investigative judge ordered charges to be brought against her in view of passages in the book that speak of Islam's growing presence in Europe as a threat to the continent.

The **Baku-Tbilisi-Ceyhan pipeline** was officially opened. The pipeline, which runs for 1,770km (1,010 miles) from Azerbaijan to Turkey, is one of the world's biggest construction projects and was built by a consortium led by BP.

See article

Pulling back from the brink

In the American Senate, a last-minute compromise to avoid the “nuclear option” that bans filibustering on **judicial nominations** was hatched by a group of 14 centrists from both parties. Some of George Bush's candidates to the federal bench will now go through. However, it is unclear whether the pact will withstand future nominations, especially to the Supreme Court.

See article

The House of Representatives passed a bill that loosens a ban on the federal use of human embryos in **stem-cell research**. Mr Bush says he will veto the legislation (his first veto) if it reaches his desk.

The Supreme Court will hear its first **abortion** case for five years. Although a largely technical case (on New Hampshire's parental-notification law), court-watchers will read the runes for any change in the justices' thinking.

Court hearings began in **Washington** state on the validity of last November's election for governor that handed victory to Christine Gregoire, a Democrat, who won by 129 votes. Republicans claim there were errors and fraud in the electoral rolls.

Mesa holding on

Reuters

Bolivia's president, Carlos Mesa, vowed not to resign as thousands of mainly Indian demonstrators thronged La Paz, the capital. The protestors want the nationalisation of the oil and gas industry. Two army officers faced a court martial after calling for a coup.

Cuba's communist government allowed an American-backed dissident group to hold a rare two-day meeting. Some foreigners who wanted to attend were turned away.

See article

In a setback for the government of President Luiz Inácio Lula da Silva, **Brazil's** Supreme Court authorised prosecutors to investigate claims of bank fraud by the social-security minister while the Congress set up a probe into corruption at the state-run post office.

The hopes of Michelle Bachelet, a Socialist, of becoming **Chile's** next president got a boost when Soledad Alvear, her only rival for the candidacy of the ruling centre-left alliance, dropped out. Ms Bachelet will face two conservative contenders in an election due in December.

Testing the relationship

Afghanistan's president, Hamid Karzai, travelled to Washington amid controversy over abuses carried out by American soldiers in his country (including the killing of at least eight prisoners) and a leaked American report that accused him of failing to show “strong leadership” against soaring opium production. Mr Karzai requested powers over the 20,000 American soldiers stationed in Afghanistan; George Bush amicably refused.

China's vice-premier, Wu Yi, cut short a visit to **Japan**, which was to have included a meeting with the prime minister, Junichiro Koizumi, in an effort to improve the countries' recently strained relations. Mrs Wu's decision was apparently a protest against remarks made by Japanese politicians in support of the Yasukuni shrine, which honours Japan's war dead, including several war criminals.

Two bombs exploded in cinemas in **Delhi**, killing one person and injuring scores. India said Islamic extremists were the likely culprits.

India, which has the second- highest number of people infected with HIV, reported a dramatic slowdown in the number of new infections. First estimates showed that only 28,000 people became infected in 2004, compared with 520,000 in 2003. Some activists disputed the figures.

Give peace a chance

AP

More than 1,000 Sunni clergy, politicians and tribal leaders who met in Baghdad said that **Iraq's** disaffected Sunnis should take part in peaceful politics, in particular to help write the constitution. American troops launched an offensive in the town of Haditha.

See article

In a message on the internet, a group close to **Abu Musab al-Zarqawi**, a Jordanian linked to al-Qaeda who is thought to have committed a series of car-bombings in Iraq, said he had been injured.

The foreign ministers of Britain, France and Germany agreed to present detailed proposals in late July to encourage **Iran** to give up plans for enriching uranium and making plutonium. Iran had threatened to end a voluntary freeze on these activities.

Mostafa Moin, the most reform-minded of Iran's serious presidential contenders, was disqualified from standing by the Council of Guardians, a conservative watchdog, then apparently reinstated at the urging of the supreme leader, Ayatollah Ali Khamenei.

See article

Zimbabwe's government sought to tackle inflation, now about 130%, by arresting 9,700 street traders and smashing their stalls. President Robert Mugabe blames such traders for the decline of Zimbabwe's dollar rather than his own over-active printing press.

The European Union's member-states pledged to double the **aid** they give to poor countries by 2015, by which time the richer members will be donating 0.7% of their national income each year.

See article

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Business this week

May 26th 2005
From The Economist print edition

The EU warns Microsoft

The European Commission's competition regulator warned **Microsoft** that it had until May 31st to comply with last year's antitrust ruling or face possible fines of *euro*4m ($5m) a day. Among other things, the commission wants Microsoft to share software protocols with other companies to enable them to tailor products that work within Windows.

Vodafone Group, the world's largest mobile-phone operator with nearly 155m customers, reported a net loss of £7.54 billion ($13.9 billion) for the year ending March 31st (after goodwill amortisation charges related to acquisitions). Operating profit rose slightly, but the British-based firm warned that cut-throat competition in Europe and Japan would affect future earnings.

TeliaSonera, a Swedish-Finnish telecom company, said it would pursue legal action against **Cukurova** after the Turkish investment group failed to sign off on an agreement to sell its 27% stake in **Turkcell**, Turkey's largest mobile-phone operator. Cukurova says that Turkish public opinion wants to keep Turkcell in Turkish hands.

Nokia unveiled its first device that will rely on Wi-Fi technology rather than mobile-phone networks. The 770 Internet Tablet has a touch-sensitive screen and is expected to go on sale later this year at around $350. The Finnish-based company, which lost some market share in the first quarter of 2005, is facing tough competition from rivals.

Consolidating losses

Japan's big-four banks posted mixed results for the year ending March 31st. **Mitsubishi Tokyo Financial Group** reported a 40% fall in net profit compared with the previous year, while **UFJ Holdings**, which is scheduled to merge with Mitsubishi Tokyo in October, said it made a net loss of ¥554.5 billion ($5.2 billion). **Sumitomo Mitsui Financial Group** also turned in a net loss; but **Mizuho Financial Group** saw net profit rise by 54%. Japan's banks have gradually been dealing with a heavy burden of bad loans.

Police in New Jersey investigating what is thought to be America's largest-ever banking **security breach** raised their estimate of the number of people whose bank-account data were stolen. The investigation focuses on a scheme that passed details of around 700,000 customers from four large banks, including Bank of America, to debt collectors.

Britain's home secretary, Charles Clarke, approved the **extradition** to the United States of three former NatWest investment bankers indicted by a federal court in Texas for Enron-related “wire fraud”. The three are to appeal.

Powering on

MidAmerican Energy, a unit of Berkshire Hathaway, will buy **PacifiCorp**, a utility in the Pacific north-west, from Scottish Power, a British utility, in a deal worth $9.4 billion. It is the biggest acquisition by Warren Buffett's investment group since General Re in 1998.

Ford agreed to an ambitious bail-out of **Visteon**, its former car-parts unit and America's second-largest car-parts supplier. The rescue will cost Ford $1.6 billion-1.8 billion.

Mitsubishi Motors posted a net loss of ¥474.8 billion ($4.4 billion) for the year ending March 31st, more than double the loss it made the previous year. The number of vehicles sold in both Japan and North America fell by around a third as Mitsubishi's brand image declined amid further accusations that the company covered up safety defects.

More bad news for **General Motors**. Fitch became the second big credit-rating agency to downgrade the carmaker's debt to junk status.

Meredith, a publisher and broadcaster based in Iowa, agreed to purchase four magazine titles, including *Fitness*, from **Gruner + Jahr**, a subsidiary of the German media company, Bertelsmann. The deal, worth $350m, marks the end of G+J's 30-year presence in the American market.

The European Union took its turn to pressure China over the surge in **textile imports** from the country. Talks were held in Brussels that sought to avert formal consultations at the WTO. Last week, China tried to reassure America and the EU that it was tackling the issue by slapping export tariffs on a wide range of textiles, but it will drop the initiative if formal limits are imposed.

See article

The OECD slashed its 2005 growth forecast for **developed economies** to 2.6% (from 2.9% forecast last November).

See article

More bang for your buck

The **euro** fell to a seven-month low against the **dollar**. Uncertainty about the upcoming referendums and weak economic data in the euro area, combined with upbeat assessments of the economy and strong house-sales data in the United States, have weighed large in recent trading.

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Europe's referendums

A song for Europe

May 26th 2005
From The Economist print edition

No would be the right answer in next week's French and Dutch referendums—and a good one for Europe

Get article background

THE voters, quite plainly, are in a restive, perhaps even angry mood. That will be so even if the outcomes in the French referendum on the European Union's constitution on May 29th and the Dutch one on June 1st turn out to surprise the opinion pollsters by producing narrow votes in favour of the treaty. When this constitution was agreed upon by heads of government last year, few seriously envisaged that it might be rejected or even actively disliked by voters in two of the EU's six founding members. It was countries in the Union's awkward squad—Denmark, Britain, Poland—that were expected to pose problems. That is the trouble when you draft ambitious measures designed to bring Europe closer to the people. The people then have the cheek to tell you what they think.

But why, Euro-enthusiasts have been asking themselves, can't a clear majority of voters be persuaded by two fine arguments that we have offered to them? The first is that the constitution is a noble document designed to help today's enlarged EU march on more efficiently towards an “ever closer union”, one that (as the French Socialist Party says in its pro-constitution campaign) can be *forte face aux Etats Unis* (strong in the face of the United States). The other is that the treaty is just a technical matter that will make little real difference and is too boring for voters to worry their pretty heads about.

One reason, of course, is that the arguments are contradictory. That clash is easily solvable, for the second one is nonsense. Weighing in at almost 200 pages in its French version, this treaty contains a bill of rights, redefines the role and powers of the EU's institutions, lays down new rules for how decisions will be made and provides a new text for European judges to interpret. That is no mere technical matter and fully deserves the term “constitution”, however much some worried Europhiles may now regret the word. Another reason, though, is that some voters may not really be offering their verdict on the constitution at all but instead on economic anxiety and their governments' record.

That is, it is true, the trouble with referendums. Even if many do cast their ballots on the question actually posed, enough voters may cast protests to distort the result. And there is no doubt that economic anxiety is rife in Europe: that is why Germany's Gerhard Schröder took such a drubbing in regional elections on May 23rd (see article). Against that, however, lies the fact that there has been no shortage of debate about the real issue in either France or the Netherlands. There has been ample chance to focus most voters' minds on the constitution itself and indeed interest has run high (see

article). Yet there is also another point: that it is not entirely unreasonable to link economic anxieties with the treaty.

It is not that the constitution will have much impact on the European economy if in the end it comes into force. Moreover the text is not, contrary to the claims of many French antis, “ultra-liberal”. *The Economist*, which is proud to be liberal with or without the adjective, wishes it were so. But the treaty makes no stipulations about economic arrangements more radical than those that France did so much to craft in the Treaty of Rome in 1957, which provided for the abolition of obstacles to the free movement between member states of goods, persons, services and capital. If the new system would be ultra-liberal, then the European Union must always have been so. The truth, of course, is otherwise and so it will be in the future. Rather, the real link is not about policy but about confidence. At a time when people are so anxious about their futures, any sort of change feels alarming. And an accurate criticism of the change envisaged by the constitution is that it is highly ambiguous, not to say bewildering; it will transfer some more power away from national governments and to the EU, but with effects of which no one can be at all sure.

E unum pluribus

This newspaper's objections to the constitution are well known; any readers that would like a reminder can find our two previous leaders urging a rejection here and here, along with the constitution we immodestly drafted ourselves in 2000. No doubt our specific ideas would be considered impractical for a Union of 25 member states, all with interests and ideas of their own. But there is a theme running through our constitution and rejectionist articles that has much in common with the anti-treaty feelings being seen in France and the Netherlands.

This is that the divergence of views and national prejudices in the EU are so wide that it is a mistake to try to force more and more policy areas into a single framework. Indeed, there are already too many: every country has some complaint about policies being foisted on it from Brussels. Some of that is desirable, for the Union has always been in part a means by which national governments force their electorates to accept rules that they might not have been able to impose on their own. But such a process has limits, which are being shown all too clearly in these referendums. A process remote from the people is unlikely to remain popular for long. And a larger Union, whether at the old 15 countries, today's 25, or in future even larger, is likely to become more remote, not less—especially if it tries to take on more and more common policies.

What is needed instead is a treaty that acknowledges the central popular concern: that an EU that is increasingly remote is also a threat to the diversity of Europe's nations and thus to national identity. Admittedly the draft constitution does leave plenty of scope for national variation; the French could nationalise (although not subsidise) their banks, if they were foolish enough to want to do so; the British could still privatise their hospitals. But the central thrust of the document is towards more centralisation.

This is a big mistake. First, it cuts down on the range of political choices open to national electorates—and thus is anti-democratic and liable to provoke a backlash. Second, the EU is capable of producing some remarkably awful policies, which because of its consensual way of policymaking become almost impossible to change once established and eventually risk discrediting the whole project. Farms policy is the best example. Finally, it is more likely that good policy will be promoted in Europe by the power of example than by fiat from Brussels. France is likelier to embrace reform because it sees Britain or Spain flourishing with different sorts of policies than because Brussels tells it to. But for this process to work, it is essential that the maximum freedom of manoeuvre is left for national governments. America's slogan of “E pluribus unum” means “out of many, one”. Europe's, though, can and should be the reverse: out of one, many.

Whether or not the French and Dutch electorates kill this current constitution, the EU's future will depend on both permitting and exploiting the continent's very diversity. A Europe that allows different approaches to be tried, whether in single countries or in groups of countries, whether “core” or “non-core”, is likely to be one that survives. A defeat for the constitution would not be the catastrophe that some Europhiles seem to think: life would go on, even in Brussels, and a Union that has lasted for almost half a century is surely strong enough to deal with the occasional rebuff from voters. If it responds by taking a pause for thought, it might even benefit.

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German elections

Exit Schröder, enter Merkel?

May 26th 2005
From The Economist print edition

Surprise: voters don't like pain without gain

Reuters

Get article background

GERHARD SCHRÖDER, the German chancellor, certainly retains a capacity to surprise. Almost everybody expected his Social Democrats (SPD) to lose the election in North Rhine-Westphalia on May 22nd, which they duly did, pushing them out of power in their heartland state for the first time in 39 years. But almost nobody predicted Mr Schröder's response: to advance the elections to the Bundestag, the lower house of parliament, from autumn 2006. Calling an early election is not straightforward in Germany, but it seems likely that Mr Schröder will get his way, and that the poll will be held in mid-September (see article). Undeniably, it is a bold stroke. But all the signs are that the ruling SPD-Green coalition will be hammered, losing power to the Christian Democrats (CDU), probably under the leadership of Angela Merkel, who has led the party in opposition for five years.

If so, Ms Merkel would become not only Germany's first-ever female chancellor, but also the first post-war chancellor from the former East Germany (see article). She is inexperienced and largely untested. Yet, subject to a few caveats, a government led by her has every chance of being an improvement on the present one led by Mr Schröder.

Her foreign policy is not yet set in stone, but Ms Merkel would be more Atlanticist. She was critical of Mr Schröder's alliance with France's Jacques Chirac in opposing the American-led war in Iraq, even if she would be unlikely now to help more, for example by sending troops. She would be less likely to put the Franco-German relationship ahead of other bilateral links: she would be keener than Mr Schröder to reach out to the British and the Americans. She would also be less forgiving of Russia's Vladimir Putin, whom Mr Schröder has been too reluctant to criticise. The one fly in the ointment on foreign policy is that Ms Merkel is against Turkish membership of the European Union. If she became chancellor in September, her new allies would have to persuade her not to block accession talks with Turkey in October—on the basis that such talks will anyway last a decade or more.

It is however domestic policy that will be the biggest challenge for a new chancellor. Mr Schröder's loss of popularity can be directly linked to the economy's persistent slow growth and, in particular, his failure to cut unemployment. When he was first elected in 1998, he declared rashly that, if his government did not cut unemployment below 3.5m, it would not deserve to be re-elected. Seven years on, German unemployment stands just below 5m, the highest level since the early 1930s. It is unlikely to come down

unless and until Germany brings in more substantial economic reforms.

In 2003, Mr Schröder belatedly embraced this cause with, first, his Agenda 2010 public-pension, health-care and benefit changes and, second, the Hartz IV labour-market reforms. Many in the SPD now say it was these reforms, which seem to have brought plenty of pain but no gain, that lost them the elections in North Rhine-Westphalia and in other states. Even within the opposition, plenty of voices are heard arguing that German voters simply will not accept big reforms.

The price of delay

Yet a more compelling case is that Mr Schröder's mistake was to start reforming too late, and then to do too little. Nowhere in Europe has economic reform been easy; many places endured pain for years before the benefits in lower unemployment and higher growth came through. Germany's love of consensus and its federal system both make changes unusually hard to deliver. Even so, there are now quite a few examples—such as Britain and the Netherlands in the 1980s, or Finland and Sweden in the 1990s—of European countries that have managed the process in spite of the pain.

Could a CDU-led government under Ms Merkel do such a job? She would, unusually, have a substantial majority in both houses of parliament, as well as in most German states. The trouble is that Ms Merkel's CDU is by no means a radical, free-market party. Its Bavarian sister, the Christian Social Union, is even keener than the CDU on preserving Germany's much-vaunted social model. Both parties are also strangely stuck in the past on issues such as civil rights, education and immigration. So far, moreover, Ms Merkel has not developed any concrete plans for the big changes needed to the tax system, health-care financing, public pensions and the like.

This is a worry, because even if she is elected in September the window of opportunity is small and she will need to move fast. As early as next March there will be three major regional elections (and in 2008 another three), which will limit the zeal for tough reforms. The odds are that if she became chancellor Ms Merkel would make a better fist of reform than Mr Schröder did. That might still not be enough.

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Philanthropy

Giving while living

May 26th 2005
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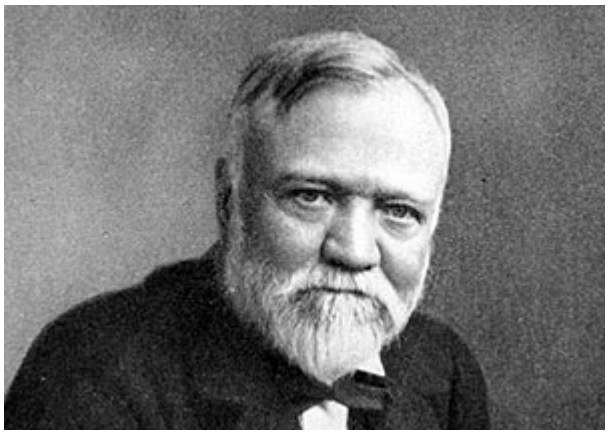
Philanthropists are paying more attention to how they give their money away

MEPL



ANDREW CARNEGIE would surely have approved of David Sainsbury. The supermarket tycoon turned politician is one of Britain's richest men. It was reported this week that he not only intends to give away at least £1 billion ($1.83 billion) during his lifetime, but to insist that his charitable foundation spend both its income and capital before he dies. Few rich donors have yet gone this far. But Lord Sainsbury's decision is part of a broad trend among a new generation of philanthropists to play an active role in seeing that their money is well spent. Such efforts should be applauded.

In his great 1889 essay on wealth, Carnegie—a steel magnate who gave away about $7 billion in today's money—argued that the rich had a duty to use most of their money to benefit the community, and should do so actively during their lifetimes. He took a dim view of those rich folk whose philanthropy consisted only of bequests in their wills—"men who leave vast sums in this way may fairly be thought men who would not have left it at all, had they been able to take it with them"—even arguing in favour of a tough inheritance tax because "by taxing estates heavily at death the state marks its condemnation of the selfish millionaire's unworthy life".

Carnegie's belief in taxing estates remains as controversial as ever, though it may come as a surprise to learn that many rich people today feel the same way. Some 120 wealthy Americans, including Warren Buffett, George Soros and David Rockefeller among others, have opposed recent Republican efforts to scrap what Republicans like to call the "death tax".

Whether or not scrapping inheritance taxes makes sense, thoughtful and well-targeted philanthropy is clearly to be encouraged. Inevitably, controlling how donations are used is especially difficult once the donor is dead. True, some charitable foundations have played a positive role as their founders intended. Britain's Wellcome Trust is reckoned to do a good job in supporting medical research, just as its founder, Sir Henry Wellcome, who died in 1936, would have wished. But the effectiveness of many of the older charitable foundations is increasingly being questioned. Right-wing American critics love to point out—probably correctly—that Henry Ford would spin in his grave if he knew about the many leftish causes now funded by the Ford Foundation.

Trustees and charity professionals who run foundations after a founder's death are rarely obliged to spend much of their capital (only 5% a year in America, for example), and may be tempted to put personal job security before the founder's goals. There is no one (other than regulators, who may have their own agendas, and the press, who have theirs too) to hold them to account. And, says Carl

Schramm, outspoken head of the Kauffman Foundation, many other foundations have “undertaken projects or programmes that were capricious, poorly thought out or just plain silly.”

So no wonder a growing number of wealthy donors are declining to leave the fate of their charity to chance. Indeed, many of today's philanthropists—including Bill Gates, who has so far donated over $20 billion to his foundation—are, like Lord Sainsbury, intent on being far more active than previous generations of philanthropists in setting clear goals and devoting a lot of their own time and energy to seeing that their money is well spent, during their own lifetimes. This is certainly the best way to ensure that, as Carnegie put it, they do not “pass away ‘unwept, unhonoured and unsung’”.

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After the filibuster deal

Lessons to be learned

May 26th 2005
From The Economist print edition

Certainly for the Republicans; but perhaps even more for the Democrats

AP

SO THE great filibuster war did not break out. The Senate Republicans, urged on by the Christian Right, had been all set to “go nuclear” on May 24th, and revoke the Democrats' parliamentary right to delay George Bush's judicial nominations. But the night before, a breakaway group of 14 maverick senators (seven from each party) reached a compromise: judicial filibusters will remain, but they will be used only in “extraordinary” cases. Although the deal allows through three conservative judges at the centre of the storm, it is a blow to the Republican leadership, which wanted to get rid of the filibuster before any Supreme Court nominations by Mr Bush.

This truce is fragile, but it is still welcome on two scores. First, it is good to see a moderate centre of sorts reasserting itself in America's viciously polarised politics (see article). Second, even though the Democrats have abused the filibuster process, a total ban on judicial filibusters would have been another over-reach by the Republicans. Just as their attempt to interfere in Florida courts to save the life of Terri Schiavo, a brain-damaged woman, seemed odd coming from a party that normally backs states' rights, ditching the judicial filibuster would have been vandalistic and short-sighted. Republicans would have removed a check on the executive that the alleged party of small government should support.

The Republicans now have a clearer warning of the danger of pushing their party's social agenda too far to the right. America is a religious country (see article), but it is not a theocracy. Mr Bush should bear that in mind, particularly when it comes to nominating justices for the Supreme Court. Yet there are also lessons in the filibuster fracas for the Democrats—ones that may be all the harder to learn now that things seem to be going a little better for them.

The Democratic revival

Six months ago, having been clobbered at the polls by Mr Bush, the Democrats looked a mess. Now they have reason to be heartened—and not just because they have beaten off the filibuster. With the economy still shaky and Iraq still deadly and unresolved, Mr Bush's approval ratings are stuck at around 45%. The centrepiece of his domestic agenda—reforming the Social Security pension system—is deeply unpopular. Republicans have defied the White House over stem-cells and the nomination of John Bolton to be

ambassador to the United Nations (even if in the end he is likely to get the nomination through a full Senate vote); and the pleasing whiff of scandal hovers around Tom DeLay, the Republicans' main bruiser in the House of Representatives.

Some Democrats think all this has happened because they are fighting back. In Mr Bush's second term, they are obstructing the Republicans at every turn—fighting them with the same ferocity that Newt Gingrich's band of Republican revolutionaries used to bring down the Democratic majority in the 1990s. The diehards are now keen to exploit extraordinary circumstances as widely as possible to filibuster any conservative judges Mr Bush nominates.

However, obstructionism looks as dangerous for the Democrats as over-reach is for the Republicans. To begin with, many of their current gains have more to do with tactical mistakes by the Republicans. Mr Bush, for instance, mis-sold his Social Security reform at first, exaggerating the extent of the problem; now he has refined his message. As the Republicans recover their rhythm, more attention will be paid to the Democrats' alternative—or the lack of it.

To be credible, the Democrats need ideas of their own. Mr Gingrich may have opposed everything the Democrats did in the 1990s, but he also had a positive and radical manifesto, the Contract with America. On Social Security, the Democrats have no plan really at all; the same goes for education, the economy and foreign policy. No wonder such a pessimistic party does so badly in America's fastest-growing regions.

Even on the issue of judges, the Democrats are close to over-playing their hand. To filibuster every anti-abortion judge Mr Bush puts forward on the ground that he or she is “out of the mainstream” is absurd; for better or worse, many Americans want to restrict abortion too. This week, those maverick 14 senators refused to overturn nearly 100 years of constitutional precedent to satisfy Republican extremism—and granted a somewhat undeserved victory to the Democrats. If the Democrats descend into obstructionism, the swing group could well switch back to Mr Bush's side for the next battle. And that one could be over the Supreme Court.

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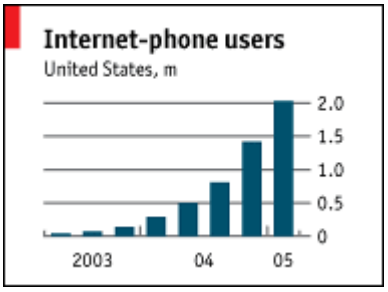
Internet regulation

Why a light touch is best

May 26th 2005
From The Economist print edition

Telecoms regulators need to treat all networks alike to ensure fair competition



WHEN she noticed her young baby had stopped breathing on March 24th, Cheryl Waller of Deltona, Florida raced to the phone and dialled 911 for emergency services. But instead of an ambulance, all she received was an empty voice message—no operator was at the number. Less than 20 minutes later her daughter Julia, 113 days old, was dead. The reason for the lack of response was that Mrs Waller's internet phone company did not provide emergency service.

This tragedy occurred not because the internet is unreliable but because of regulatory confusion. The burgeoning industry of low-cost internet calling is not required to uphold classic (and often cumbersome) telecoms rules. On May 19th, America's Federal Communications Commission (FCC), moved to address the gap by requiring that voice over internet protocol (VOIP) providers also handle emergency calls (see article). It was a necessary move. The internet has grown up, and regulators must ensure it offers the same social safeguards that the public expects from any critical infrastructure—reliability mostly, but also the ability of law-enforcement authorities and courts to monitor or intervene when necessary. But beyond these minimal requirements, regulators must be cautious, for fear of smothering a vehicle that continues to revolutionise not only communications, but lots of other aspects of society and the economy as well.

Unfortunately too many regulators around the world are itching to do much more. The problem is that the current philosophies of most regulators are predicated on three assumptions that no longer hold true. First, that telecommunications mainly concerns voice calls. Second, that telecoms networks are in effect natural monopolies. And third, that in most cases the firm that owns the network also provides the service. However, broadband technology has overturned all three assumptions. Around the world, new networks are being built at huge expense and existing networks are being upgraded. Most will carry voice, video, data and who knows what else. They will also provide most customers with a choice of ways to get on to the network—ie, the internet itself. The age of monopoly telecoms networks is passing quickly. Moreover, there has been a rapid decoupling of the firm that owns the physical network from the company that supplies the services atop it.

Regulators everywhere need to take into account these shifts in business and technology when they write new rules. As the traditional telecoms networks fade into obsolescence and new broadband-internet connections become the norm, the best way to regulate is to dust off the classic telecoms principle of non-discrimination and adapt it to modern times. In the past, this referred to the rule that phone companies would not interfere with or degrade service for customers of rival operators. Today non-discrimination should mean regulators must treat all networks equally, rather than distinguishing between the different sorts of technologies that provide access, be it cable, fibre, wireless, power-line or DSL over copper wires. This is something America's 1996 Telecoms Act failed to do, and requires fixing now that Congress has signalled an interest in revising the law. This approach of non-discrimination among access technologies will provide an environment that will aid investment and enable competition to flourish.

Telecoms regulators should not do, or be allowed by their governments to do, much beyond this. Such restraint will feel like a strange departure. It is in the nature of regulators to want to regulate. And yet it is the right approach—with perhaps one caveat. Until competition in broadband access becomes ubiquitous, there is a case for requiring access providers to allow any and all legal content over their local networks because, as entertainment and other services proliferate, some operators are likely to try to exclude VOIP, on-demand video or other new products from rival firms. And yet the need to impose any rule in this area should be only temporary. Already, for example, 80% of Americans have a choice of

broadband access to the internet. If customers are told what they are getting, and have a choice, competitive pressures alone can be relied upon to preserve the internet's historic openness from big firms who try to pursue a so-called “walled-garden” approach.

Flood protection

In the same “hands-off” spirit, telecoms regulation should not try to second-guess the emergence of particular services. Instead, it should be as minimal as possible, as the recent FCC decision on VOIP and emergency services sought to be. Indeed, the internet itself provides the best example of why minimalism is best. Back in the 1970s, its designers deliberately made it simple, and did not design support for specific services into its architecture. This approach opened the gates to a flood of commercial and technological innovation. The first priority of telecoms regulation in the future must be to keep those gates open.

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Democracy in the Middle East

Now please vacate your thrones

May 26th 2005
From The Economist print edition

Why George Bush's freedom talk falls flat in some Arab circles

IT IS Pavlovian. When Americans say “democracy”, Arabs say “Palestine”. Or, at least, Arab leaders do. Amr Moussa, the secretary-general of the Arab League, is an arch-exponent of this conditioned response. At a meeting of the World Economic Forum in Jordan last weekend, he barked “Palestine” every time Liz Cheney, an assistant secretary at the American State Department, had the temerity to mention George Bush's vision of an Arab democratic spring. “There will be no spring or autumn or winter or summer without solving the problem,” he thundered. “We want our friends in the United States to know that this is the consensus in the region.”

Mr Moussa exaggerates, as is his wont. He is right to say that the Palestinian cause resonates throughout the Arab world. But it is nonsense to say that Arabs want to shelve their own democratic hopes until Palestine is resolved. On the contrary, many Arabs have noticed that being a democracy has strengthened rather than weakened Israel during the long years of conflict. Impressed by recent elections in Iraq and the Palestinian territories, and by the “people power” that has helped to shove Syria's army out of Lebanon, most Arabs say in polls that they would like democracy for themselves.

If Mr Bush wants democracy for the Arabs, and they want it for themselves, why is there no meeting of minds? Part of the answer is indeed Palestine. In Jordan, the Arab audience winced every time Laura Bush (the president's wife), Robert Zoellick (deputy secretary of state) and Ms Cheney (daughter of the vice-president) mentioned Mr Bush's belief in “freedom”. Arabs blame Mr Bush for helping Israel to thwart Palestinian self-determination, for propping up local dictators and other authoritarians, and for having invaded Iraq in pursuit of oil or on behalf of Zionism. Some of this is rubbish and much is unfair (don't Arabs also bear some blame for the Arab-Israeli conflict?), but the indictment is widely believed and will hinder America's democracy project until Mr Bush has delivered statehood to Palestine and peace to Iraq.

However, there is another reason for the wincing. Whatever Arabs want, the last thing their leaders want is to lose power by introducing the democracy that America now demands of them. The United States and its Arab allies are therefore locked in an almost surreal dialogue. Bullied, nagged and cajoled by their superpower patron, the kings of Jordan and Morocco, the emirs of the Gulf, the Saudi crown prince and the ever-ruling presidents of Egypt and sundry North African states are forced in public to mouth the jargon of political reform and democracy while straining every muscle in private to ensure that their version of democracy denies the masses the one thing they most desire: a peaceful way to boot the said kings, emirs, crown princes and presidents out of office.

Does Mr Bush himself want to see the backs of these familiar allies? His democracy agenda strikes some onlookers as an after-the-fact justification for the war in Iraq, invented once the main given reason (Saddam's weapons of mass destruction) had collapsed. And yet he now seems a true believer. In one blunt speech, which the steely Ms Cheney repeated in Jordan, he has said that America made a mistake in having spent 60 years excusing the lack of freedom in the Middle East.

The Arab authoritarians on whose behalf those excuses were once made can only feel chilled by such remarks. What, after all, are the poor devils to do? They can prate about “civil society”, or give women the vote in elections to toothless parliaments (as Kuwait just has), or hold men-only municipal votes (Saudi Arabia), or fake competition for presidential elections whose winner is known in advance (as Egypt's will be even after President Hosni Mubarak's reforms). But if Mr Bush wants to endow Arabs with the right to sack their leaders (both the right and the sacking being richly deserved), the potential sackees will do their best to resist him. And in the meantime Mr Moussa can be relied on to keep barking.

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Letters

May 26th 2005
From Economist.com

The Economist, 25 St James's Street, London SW1A 1HG
FAX: 020 7839 2968 E-MAIL: letters@economist.com

China and trade

SIR – As the primary sponsor in the House of Representatives of the Stopping Overseas Subsidies Act, and having read your article on China-bashing, I feel compelled to set the record straight ("Putting up the barricades", April 23rd). Your analysis of the legality of this legislation under WTO rules and its relation to existing law in the United States amounts to nothing more than a saturnalia of thought. In fact, the WTO does not distinguish between market and non-market economies in the application of countervailing duty (CVD) law. The distinction is one limited to United States agency construction.

Additionally, this bill doesn't treat China as a market economy; it simply makes clear that American CVD law applies to all countries, market and non-market. This bill is not, as you suggest, the latest in a series of poster children for rising protectionist sentiment in Congress. Rather, it seeks to eliminate a fundamental inequity in American trade law, created by American bureaucrats, within our WTO obligations.

Phil English
House of Representatives
Washington, DC

Name calling

SIR – The phrase "axis of evil" seems "melodramatic" to you ("Return of the axis of evil", May 14th)? Did Ronald Reagan offend you when he called the Soviet Union an "evil empire"? There is nothing wrong with calling oppressive dictatorships evil. Try it sometime—the world will start to make a little more sense. Diplomacy with Iran and North Korea accomplishes nothing, while giving them time to continue their plans in secret.

Brendan Dunning
Halifax, Virginia

SIR – Emerging nuclear powers act unpredictably as they have no track record of responsible nuclear use—but perhaps no more so than existing nuclear powers. America is the only country that has ever used nuclear weapons in wartime (on Japan) and has become increasingly belligerent of late. Iran and North Korea are seeking to expand their arsenal, in part, as a defensive tool against Washington's aggression. An unbalanced, unipolar world, with one country dictating to others thanks to its vast military superiority, can only lead to increased injustices and increased conflict. Nuclear weapons are no better in America's hands than in North Korea's.

Siddharth Parameswaran
Pennant Hills, Australia

Politics in Egypt

SIR – The subtitle of your article on democracy in Egypt, which reads "Who does President Hosni Mubarak think he is kidding?", leaves little room for your readers to make their own judgments on a complex situation and is wholly inappropriate given the flaws exposed in Britain's own system of representation ("Democracy, Egyptian style", May 14th). On what grounds can you presume to judge the

appropriate progress of democracy in Egypt, when you regrettably take such an ingenuously culturalist perspective? You may do well to remember George Orwell's timeless advice about the dangers with which one dares to write about the prickly language of “democracy”.

The Egyptian government's case against Ayman Nour is still being heard. As both parties remain resolute in their positions, is it not right to allow due legal process to determine whether the charges against Mr Nour are “flimsy” or not? By its own admission, the Muslim Brotherhood is standing firmly rooted to its fundamental and guiding principles; therefore one wonders what has prompted you to suggest that it has become “less radically sectarian and more democratic”.

Ayman Alkaffas
Embassy of Egypt
London

Power to the people

SIR – The real answer to worries about energy security throughout the developing world lies not just in global oil markets but equally in energy conservation (“The real trouble with oil”, April 30th). For too long, there has been a presumption that an increase in demand for energy services must lead to an increase in energy consumption. This is nonsense. I have never met anybody who wanted to buy a litre of oil or a kilowatt of natural gas or electricity. What they want to buy is light, heat, motive power. They can have all of these using a fraction of the fuel currently burnt, but only if the most efficient technologies, buildings and vehicles are used. By doing so, societies save both economically and ecologically. Why doesn't such common sense prevail? Why not ask those whose entire business rationale is to sell us more oil, more natural gas, more electricity?

Andrew Warren
Association for the
Conservation of Energy
London

SIR – Your survey on oil focuses partly on the well-known proposition that supply-and-demand factors determine the price of crude oil (April 30th). You recognise that a new complication has arisen, namely that of the institutional pension managers investing in commodity indices, heavily weighted to crude oil, as an asset class. In the United States alone, they invested an estimated $50 billion in 2004, with $100 billion expected in 2005. This is a radical change from the past use of such funds and explains the otherwise paradoxical co-existence of rising inventories and increasing crude oil prices.

It is our own pension funds that are buying millions of barrels of crude oil, holding them in storage “forever”, driving up prices, disrupting monetary policy and sending more and more wealth to oil producers. It could indeed lead to steep oil price hikes, reminiscent of the experience of the 1970s and early 1980s. Until this failure of institutional structure is addressed by government, matters will continue to deteriorate.

Philip Arestis
John McCombie
Warren Mosler
Cambridge, Cambridgeshire

Car dealers

SIR – I must take issue with the conclusion of your leader on Ford and General Motors (“Deal or bust?”, May 14th). You say their problems lie not in the factory, nor in the design shop, but in the $1,500 per car additional overhead for pensions and health care. However, you also state that both companies offer up to $3,000 per car in discounts. This is roughly $2,000 more than Japanese carmakers offer, yet Ford and GM's sales are still declining. Frankly, I believe that the problem Ford and GM face is that they are producing cars which nobody wants to buy and their marketing is poor—about a third of their sales are to fleets at even lower prices.

Richard Guha
San Marino, California

Love thy neighbour

SIR – With regard to Dan Taylor's plea for the European Union to embrace Canada as a member, I say fine (Letters, May 14th). But then the United States gets Britain. I think America would walk away the clear winner in that trade.

Matthew Klokel
Washington, DC

SIR – The best solution is to create an ultra-powerful North American Union, whereby the provinces and states of Canada and Mexico become new states in the United States.

Justin Hategekimana
Pittsburgh, Pennsylvania

ONLINE ARTICLES

The following correspondence refers to articles published only online

China's currency

SIR - In your article on pressure for the revaluation of the yuan ("What do yuant from us?", Economist.com, May 18th) you mention that steps are being taken to protect citizens in America and the European Union from the "threat of cheap Chinese textiles". However, the true picture, surely, is that by taking steps to reintroduce textile quotas, the European Commission and the American Congress are upholding the argument that Chinese textiles are not just cheap, but also state-subsidised, and thus thoroughly deserving of corrective trade restrictions.

The irony is that the quota system now being revived has in fact been a key mechanism for both subsidising the Chinese state textile manufacturers and levying punitive charges on private textile firms. The quotas tend to be issued predominantly to the state textile firms, who then sell off their surplus quota allocations to private clothing manufacturers.

The distortions that were caused by this system have become evident since the ending of quotas at the end of 2004. Even as exports surged, profits at China's 38 key state textile enterprises in the first quarter of 2005 dropped by 39% year-on-year. However, with the reimposition of quotas, this rationalisation process will again be put on hold.

Although this is a major setback for the Chinese private sector, the beleaguered, Communist-run textile factories will, no doubt, be greatly relieved that they have allies in both Congress and the European Commission championing their cause.

Tim Wilson

Glazer and Manchester United

SIR - The purchase of Manchester United by Malcolm Glazer ("Glazer scores at last", Economist.com, May 12th) may be the finest single opportunity for opponents of globalisation to tell the world what they think of American-style economics. All that is required is for Manchester United fans to show discipline and ignore their beloved team. Poor attendance and low merchandise sales would soon turn Mr Glazer's $1.5 billion investment into something close to zero, a situation that no proponent of globalisation would be able to ignore.

Matthew Jankowski

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France and the EU

A severe crise d'identité

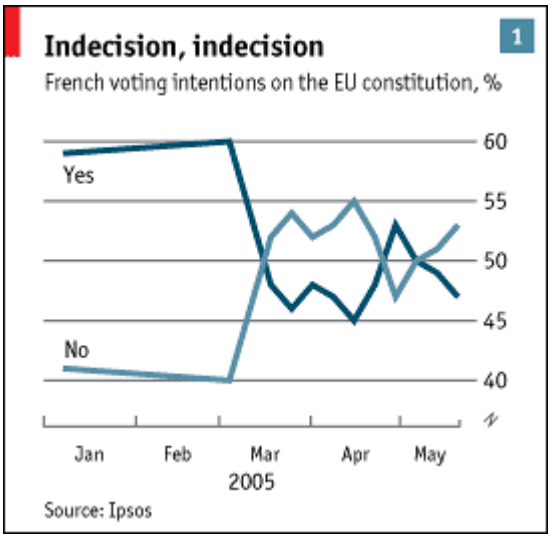
May 26th 2005 | PARIS
From The Economist print edition

Is France, the country that helped to invent European integration, about to undo it?

Get article background

A LITTLE over six months ago, the French were preoccupied by the usual anxieties of a modern democracy: how to manage stress, stay slim, recover from alcoholism and understand “The Da Vinci Code”. Or so the non-fiction bestseller lists would suggest. Today, as the country prepares to vote on May 29th in a referendum on the European Union's constitutional treaty, trivia have been banished from the French mind. No fewer than five of the top ten, and eight of the top 20, non-fiction titles are about the treaty: from the official “Le Petit Guide de la Constitution européenne”, which tops the list, to “Cette ‘constitution’ qui piège l'Europe”, by the far-left lobby group Attac.

France is in the grip of an unprecedented debate about Europe. It divides the country neatly in two: the yes vote, which stood as high as 64% last September, has for the past two weeks slipped back below 50%, pointing to a rejection. But the two lines have already crossed three times since mid-March (see chart 1). An unexpectedly strong result either way cannot be ruled out. In any event, the outcome is too uncertain to call.



Every voter has been sent a copy of the constitution, all 191 pages of it; and in *brasseries*, over dinner tables, on campuses, everywhere, they have been arguing and agonising about it. Debates rage nightly on prime-time television. Fully 83% of the French told a *Paris-Match* poll this month that they had discussed the constitution during the past week, up from 26% in February. Top politicians fill auditoriums with thousands. Over 9m tuned in to watch Laurent Fabius, the leading no campaigner on the left—more than watch France's football cup final. One little-known senator tells how 200-odd turn up even to his meetings, with yellow Post-it notes bristling from their copies of the text.

The possibility that France might reject Europe's first-ever constitution appears startling. France has a good claim to have invented European integration. When in 1950 Robert Schuman, its foreign minister, proposed the pooling of French and German coal and steel production, this became the embryo of the future European Union. Since then, France has been a Euro-pioneer, taking part in every project from the common market to the euro, and opting out of none. Its former president, Valéry Giscard d'Estaing, presided over the convention that drafted the constitutional text. All mainstream parties—President Jacques Chirac's ruling UMP on the centre-right, the centrist UDF, the Socialist Party on the left—are in favour of a yes.

So why is France so divided? The answer is that the referendum has set off a bout of introspection that is only tangentially related to the text. “The referendum has put France on the couch”, wrote Claude Imbert in *Le Point* magazine. What might have been an arcane question about constitutional arrangements has morphed into a battle over the future of France. There are three elements. The first is about France's place in the world. The second is about the failure of its economy to create jobs. And the third is about the nature of its political elite.

A la recherche d'une gloire perdue

During his few appearances during this campaign, Mr Chirac has drawn on one of his favourite themes: the need to create “a European power”, strong enough “to count in tomorrow's world” faced with the American superpower, as well as with rising powers such as China. Such a “*Europe puissance*”, with its own defence capability, would naturally be of French inspiration, not “Anglo-Saxon, Atlanticist”. It is a popular theme, which Mr Chirac used to near-universal French acclaim when opposing the Iraq war. And foreign policy is the one area where most of the French still reckon he is doing a good job. Yet, this time, the message has fallen flat.

Why? The answer is that the divisions within Europe exposed by the Iraq war revealed something new and troubling for France. Not only was the country unable to prevent the invasion, but Europe was not even united behind its effort to do so. Differences with Britain were to be expected. Dealing with the instinctive atlanticism of Europe's new members—not then yet even part of the club—was not.

The enlargement of the EU to 25 has been painful for the French, who feel their voice diluted, their language threatened, their vision challenged and their jobs at risk. In the past, Europe represented comfort, reassurance and shelter: from German muscular nationalism, from poverty, from imperial decline. Today, it has become a threat to French identity. Alain Juppé, a former centre-right prime minister, puts it well on his internet blog, al1jup.com: “The problem is that the French, constitution or not, no longer see the European Union as a construction that brings them progress and security in a world full of menace.”

In other words, many of the French do not consider the new Europe, symbolised by the constitution, as a guarantor of Mr Chirac's *Europe puissance*. Quite the reverse. They have already witnessed his struggle to keep the promise. Moreover, the prospect of Turkish entry, which Mr Chirac supports, is fiercely opposed by French public opinion: 67% are against, next to 55% in Germany and only 30% in Britain, according to an IFOP poll. Particularly on the right, Turkey is a leading reason for voting no. Although the constitution does not deal with Turkish membership, many in France believe that the document paves the way for it. And Turkish entry is seen as further confirmation that the French have lost control to the Anglo-Saxon version of Europe: little more than a loosely connected common market.

These concerns do not add up to Euroscepticism *à l'anglaise*. Although France has its own nationalist fringe, ranging from Philippe de Villiers to the far-right Jean-Marie Le Pen, combined with elements of the hard-left, these voices, even together, remain a minority. What has tipped the balance is the mainstream “pro-European no”, advocated by Socialist rebels and led—and lent credibility—by Mr Fabius, another former prime minister, along with assorted revolutionary Communists, Trotskyists and anti-globalisation

groups. They do not advocate, as their British counterparts do, pulling France out of the EU. Rather, their plea is for “a different constitution for a different Europe”.

Economic headaches

This promise of renegotiation, as a means of securing that other Europe, may be wishful thinking. It is unlikely that France would secure a treaty any more to its liking if talks were ever to start again. But as many as 69% of the French believe it would, according to a BVA poll. This quest for “another Europe” is not just about diplomatic clout: it is a last cry to protect France's social system.

In the campaign lexicon, France's central economic fear is *délocalisation*: the loss of jobs to low-cost central and eastern Europe. Since the EU directive on liberalising services was debated earlier this year, it has been accompanied by a fear of low-wage workers—embodied by a mythical Polish plumber—flooding to France to undercut its wages and steal its jobs.

Concern about job losses has some basis: low value-added manufacturing, in some sectors, is slipping out of France, as it is from all high-cost industrial economies. Yet the prospect prompts such panic in France because its own unemployment is so stubbornly high: 10.2%, only a shade below the 11.3% it was when Mr Chirac took over as president in 1995. Among the under 25s, it is nearly one in four.

France's private sector boasts some of the world's leading companies, in industries such as cars, handbags, shampoo, yoghurt and insurance. Yet these firms tend to manage by employing relatively few people. Jobs are so thickly protected that employers hesitate to create them. Many resort to temporary or short-term contracts, or to interns. The upshot is a two-tier labour market: sheltered jobs for those who have them, and precariousness or joblessness for the rest.

This is why so many young people feel so anxious. Their pessimism was exposed dramatically during a TV debate in which 80 of them confronted Mr Chirac with their despondency. “Frankly,” he replied, “I don't understand it, and it pains me.” His bafflement only deepened their gloom. “Unemployment is the principal anxiety that has mobilised the no on the left,” says Brice Teinturier, political director of TNS-Sofres, a polling agency. “We haven't seen such levels of worry for 20 years.”

With such insecurity, it is easy to whip up fears. For the no camp, the most reliable panic button is the word *libéralisme* or, better, *ultra-libéralisme*. The constitution, says Attac, “is a text of ultra-liberal inspiration”. The EU services directive, it argues, “revealed what is hidden in the constitutional treaty: a veritable liberal project of *délocalisation*, an end to public services, the dismantling of the right to work.”

It is not just the hard-left that makes such claims. The “Socialist No” group condemns the text as the unacceptable expression of “free and unbridled competition”. Mr Fabius, a former centrist finance minister who has now teamed up with the likes of José Bové, an anti-globalisation sheep-farmer, rails against a “Europe dictated by finance”. These claims can be surreal. Some no campaigners trumpet the fact that the document mentions the word “competition” 27 times. Yes campaigners, hitting back, claim there are 89 mentions of the word “social”.

Illuminating for voters or not, the debate is no bad thing for France. The country's high-cost, state-heavy model has served it well in the past, but has become a drag on growth. It has not escaped the French that Britain has less than half as much unemployment, that British income per head overtook the French back in 1995, and that French growth has been more sluggish. Last week, GDP growth for 2004 was revised downwards to 2.1% (see chart 2), and annualised growth in the first quarter of this year fell to just 0.8%.

Yet very few French voices are advocating a more liberal approach. France's political centre of gravity sits well to the left of other European countries. Mr Chirac himself often uses the language of the left. The influence of France's communist intellectual heritage lingers, on campuses and in political rhetoric. “Competition” and “profit” remain dirty words. The Communist-backed CGT is the country's most powerful union. François Bayrou, the UDF leader, puts it well when he says that “France has never been *démarxisé*”.

Yet, faced with the evidence of successful reforms in countries such as Britain and Spain, France is beginning at least to look at alternatives. In particular, Nicolas Sarkozy, Mr Chirac's chief rival on the right, has begun to speak out. “The best social model is the one that gives work to everybody. It is not, therefore, our own,” he said at one rally. “It is not ideological mimicry to want to draw inspiration from those in Europe who have found the path to full employment and to turn our backs on the methods of those who end up plunging us into mass unemployment.”

Langue de bois

The circular debate over the constitution, as to whether it is liberal or not, is only partly due to the ambiguous nature of the text. It also exposes the third source of popular disaffection. “The revolt against the constitution”, says André Kaspi, a historian at the Sorbonne, “is also a revolt against the political elite, on the left and the right. And, since the elite has always said that, whenever anything goes wrong, it's the fault of Brussels, the elite has contributed to this revolt.”

Popular disillusion with the political class runs deep. It was one reason that Mr Le Pen outdid the Socialist candidate, Lionel Jospin, in the 2002 presidential election: besides his xenophobic message, he denounced the duplicity of the political establishment. The problem is symbolised by what the French call *langue de bois*: a failure of the political class to talk straight.

Partly because of the country's leftist bias, there has for years been a tendency to reform by stealth. Rather than explain the need for France to adapt, politicians have carried out (albeit minimal) reforms while either concealing them, or by blaming outside forces, usually Brussels. Mr Jospin's Socialist government, for instance, privatised more than any previous government, without ever using the word. Whenever a company such as France Télécom is prepared for sale, the government first sells a small stake and promises it will keep a majority holding—but the firm ends up privately owned all the same.

The trouble is that, at some point, the truth catches up with the politicians. One of those points is now. The enlarged EU, which was never put to a referendum in France nor debated widely, is belatedly discovered to be a *fait accompli*. It hardly matters whether the promises were sincere. Politicians—and many economists—said that the euro would bring down prices; yet the French feel that their weekly bills have gone up. The devaluation of the politician's word means that current pledges, such as the one to consult the French on Turkish EU membership, or the claim that the EU services directive has been shelved, or the idea that “there is no Plan B”, are not believed. Mr Chirac himself, whose popularity is at an eight-year low, has veered back and forth on Europe so many times that nobody knows what he really thinks.

The upshot is confusion. Mr Fabius says the text is liberal. Mr Chirac says it is social. The no camp says the text will end the right to abortion. The yes camp says it extends women's rights. Whom should the French believe? “Many people don't understand the text, but nor do they trust politicians to explain it,” says Sylvie Goulard, author of a recent book on Europe and Turkey. If you don't trust the political class, a no vote becomes a refuge of certainty; a yes, a venture into the unknown.

In some quarters, distrust is amplified by militancy. The no campaign has acquired a certain element of rebellious cool. In fine revolutionary tradition, some no campaigners see themselves as Europe's vanguard, out to demonstrate that France can still turn the tide on a Europe of the elite. “Two hundred years after the Bastille,” cried Mr Bové last weekend, “the people of the left are today going to wreck this constitution.”

Furthermore, running through this referendum campaign is a parallel race for the 2007 presidential election. The French know that personal political interests overlie national ones. How is it that Mr Fabius, a tax-cutting former finance minister, is now courting the anti-marketeers? Why has Mr Sarkozy carefully not campaigned too hard, for fear of tarnishing his own brand in the event of a French no? The answer is that each man's presidential campaign is also at stake in this referendum—as are those of François Hollande, the Socialist leader, and of Mr Chirac himself.

On the right, a French no would seriously weaken Mr Chirac and probably exclude him from standing for a third term. He will not follow de Gaulle and resign: he has already ruled that out. With either a no or a narrow yes, he will almost certainly, though, replace his unpopular prime minister, Jean-Pierre Raffarin. Candidates to take his place include Dominique de Villepin, the impulsive interior minister, and Michèle Alliot-Marie, the loyal defence minister. But Mr Chirac is a master of the political surprise. He could pick, say, Jean-Louis Borloo, the likeable jobs minister. Even Mr Sarkozy, despite Mr Chirac's distrust of the man who deserted him in the past, cannot be discounted for the job. Prime minister or not, a French no would strengthen Mr Sarkozy's chances of emerging as the single UMP candidate for 2007.

On the left, a no would kickstart Mr Fabius's presidential campaign, but also divide the party. Many in the Socialist yes camp will never forgive him for splitting the party and ignoring its internal referendum, held among all members last November, which resulted in a yes. “He will never become the party's official candidate,” insists one bitter Socialist figure. Even among the Socialist no campaigners he draws contempt, and would struggle to unite the left. Whatever the outcome, the party is likely to hold a fresh congress to try to thrash out its internal differences and settle scores. Many top Socialists will fight hard to keep Mr Fabius from taking control. A wrenching internal battle would ensue.

And policymaking? Even under a new prime minister, and even with a narrow yes, a Chirac government is unlikely to try big domestic reforms ahead of 2007. Mr Chirac has never had an appetite for radical change. Moreover, demands for more socially minded government will be strong. The unions will probably take their discontent to the streets. If anything, Mr Chirac will veer to the left.

If the French do vote no, the president will doubtless try to rally the country with statesmanlike talk of respecting the will of the people. There may well be an effort to blame the left. But the ultimate humiliation will be his. Within Europe, Mr Chirac's authority would be weakened, leaving him vulnerable on both sides. At home, he would face pressure to demand more social concessions from Brussels. Yet it would be hard for him to make demands of fellow Europeans who felt that it was France that had let down the cause.

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Congress

A surprise from the Senate

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From The Economist print edition

Getty Images

Who won the great filibuster stand-off?

AT EIGHT O'CLOCK on Monday evening the Alliance for Justice, a left-wing interest group, ran a 90-second advertisement in which Harry Reid, the Senate's Democratic minority leader, informed the country that “a crisis is unfolding here in the Capitol.” Yet even as the celluloid Mr Reid warned of a crisis the real Mr Reid was celebrating a peace deal.

Two hours earlier, 14 senators—seven from each party—had managed to cobble together an agreement that stopped the Republicans “going nuclear” and banning judicial filibusters. Just as the Senate's copious supply of flunkies were bringing the cots into the chamber for an all-night debate and journalists were putting the finishing touches to their editorials on the decline of the Senate, the magnificent 14 stepped into the breach, defying (or deserting) each party's generals just as they were about to go into battle.

The essence of the deal is simple. The Democrats agreed to give floor votes to three nominees who had been waiting in limbo for years—Janice Rogers Brown, William Pryor and Priscilla Owen. They also undertook to use the filibuster, which the Republicans need 60 votes to overturn, only in “extraordinary” circumstances. In exchange, the Republicans agreed not to support any changes in the Senate's rules (they could have got rid of the filibuster by a simple majority vote), as well as making polite noises about encouraging George Bush to consult widely on Supreme Court nominations. The precise meaning of vital words like “extraordinary” was left necessarily vague.

Who won the great filibuster stand-off? To judge from the immediate reactions, it was a Democratic knock-out. A euphoric Mr Reid declared that the “abuse of power will not be tolerated, and attempts to trample the constitution and grab absolute control are over.” Barbara Boxer declared a “big victory” for the Democrats. People for the American Way, a left-wing interest group, crowed that “this is a major defeat for the radical right.”

The radical right seemed to agree. Bill Frist and the other Republican leaders looked less than ecstatic. Right-wing groups were apoplectic. Jim Dobson, the head of Focus on the Family, called it “a complete betrayal by a cabal of Republicans and a great victory for united Democrats”. Paul Weyrich, a veteran social conservative, said that “once again moderate Republicans have taken the victory and thrown it

overboard". It was a "Republican Munich", according to Pat Buchanan.

This rhetoric overstates the asymmetry at the heart of the agreement. It is in the nature of such deals to require sacrifices on both sides. The Democrats had to accept three judges that they have spent years smearing as "far out of the mainstream". That concession is creating considerable discontent on the more uncompromising wing of the left. The Republicans now have three more potential "Clarence Thomases" for the Supreme Court. The Democrats have also cleared the way for the Senate to vote on John Bolton, a vote that is expected to pass on party lines.

So the Republicans are probably in a stronger position than they would have been if they hadn't threatened the nuclear option in the first place. And they can still use that option if they disagree with the Democrats over the meaning of "extraordinary" circumstances.

Nevertheless, the initial impression is right: Democratic hardliners have lost less than Republican hardliners. In particular, there are three big losers from the peace deal: Bill Frist, the White House and the religious right.

Mr Frist is a much diminished leader. He had argued that he had done everything possible to avert a showdown, only to be frustrated by Democratic intransigence. But a group of mavericks and backbenchers succeeded in cobbling together a peace deal behind his back. He had hoped to present himself as the leader of a united Republican Party against a stonewalling Democratic opposition, an image that would have positioned him as the champion of social conservatives in any future presidential run. But now he is just one of many generals in a disorganised army.

The White House is also deeply frustrated. Mr Bush's political strategy has long depended on using a narrow Republican majority to push through broad changes. This worked well when the Republicans were willing to walk in lockstep behind the president. But the Senate deal is one of a number of indications that lockstep is no longer the height of Republican fashion. Last week, 46 Republican senators defied the threat of a presidential veto to vote in favour of a pork-stuffed highway bill. This week 50 Republicans from the normally pusillanimous House also defied the threat of a presidential veto to vote in favour of a bill to expand federal funding for stem-cell research. Add to this the lagging fortunes of his Social Security reforms even among Republican voters and Mr Bush looks much less formidable.

The religious right has good reason to be apoplectic. For social conservatives the filibuster fight was always a fight about the Supreme Court. Social conservatives calculated that it would be much easier to get one of their own on to the Court if they could deprive the minority of their power to use the filibuster; indeed, they hoped to sneak one or even two Clarence Thomases to the Court by as early as this summer. But the 14 senatorial peacemakers have not only left the Democrats with the filibuster, they have also sent a signal that they might be willing to break ranks with the White House if the fight gets too acrimonious.

The biggest winners from the peace-deal are the Senate's band of moderates. The hard core of the peacemakers were senators who regularly vote across party lines: north-eastern Republicans such as Susan Collins, Olympia Snowe and Lincoln Chafee, red-state Democrats such as Ben Nelson, Mary Landrieu, Mark Pryor and Ken Salazar, and philosophical moderates such as Joe Lieberman.

The peace deal was a huge psychological boost to a group that has often been cowed by the ideological extremes. It proved that they can overcome their reputation for dithering if they really want to. It also proved that, given the guts, they can change the direction of politics. The guts were particularly notable on the Republican side: it is no small thing to defy a majority party leadership that is confident it has the votes to prevail.

John McCain emerged, once again, as the hero of the moderates, the man who led the peacemaking from the start. Mr McCain is ubiquitous at the moment, championing immigration reform, speaking out against pork-barrel spending, giving interviews left, right and centre about a forthcoming film about his life, and burnishing his reputation as a leading Republican candidate for president in 2008.

Of course, social conservatives are furious with Mr McCain for the peace deal, but they have fumed at him for years. Mr McCain's only chance of winning the presidency lies in creating a political realignment, bringing in moderates, mavericks and opinion leaders. He has now created a fashion for McCainism in the Senate that must be deeply disturbing to Mr Bush.

The biggest winner of all from the peace deal is the Senate itself. If it had succeeded, the Republican

leadership's plan to break the filibuster would not only have snarled up business for weeks, as the Democrats played a game of tit for tat; it would also have transformed the character of the institution, making it much more like the House and much less like the deliberative body that it was meant to be.

The Founding Fathers used various metaphors to describe the role of the Senate. James Madison called it an “anchor” of government and a “necessary fence” against the “fickleness and passion” of the general public. George Washington said that it existed to “cool” the House legislation just as a saucer can be used to cool hot coffee. Mr Frist's manoeuvre would have reduced it, so far as judicial appointments are concerned, from an “anchor”, “fence” or “saucer” into a rubber stamp.

For all that, it is important not to overstate the implications of the peace deal. The magnificent 14 didn't so much solve the problem as kick it down the road. The Democrats who designed the agreement have the right, as individuals, to filibuster judicial nominees in the famous extraordinary circumstances. And the Republicans have the right to support the nuclear option if they believe that the Democrats have broken the agreement.

Three of the Republican peacemakers—Mike DeWine, Lindsey Graham and John Warner—have already expressed a willingness to “go nuclear” if the Democrats start filibustering a nominee. The impending fight over the Supreme Court could yet see that happening. The only difference will be that the political mood will be even more fraught than it was this week.

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About sponsorship

George Bush's judges

Three steps forward

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What difference will the judges let through this week make to the courts?

AP

The hard-to-judge Ms Owen

AN UNDERLYING theme of the debate about George Bush's judges has been the idea that they will drag the judiciary to the right. Now three of his most contentious nominees will get seats on the federal appellate courts: Priscilla Owen from Texas has already been voted in; Janice Rogers Brown from California and Bill Pryor from Alabama look set to follow. Are they really that extreme?

It is not hard to see why they are fairly strong meat for liberals on social issues. Judge Owen is loathed by the left for her support of parental notification for teenage abortions (though that puts her with most of the American public). Mr Pryor has called *Roe v Wade* “the worst abomination” in constitutional history. He also called the Voting Rights Act an anachronism and asserted that striking down Texas's anti-sodomy law would lead inevitably to bestiality, incest and paedophilia.

Most of the debate about the judges has focused on their social conservatism. But their main attraction to many Republicans is actually their pro-business stance. Ms Owen is a former oil-and-gas business lawyer in Texas. Ms Brown is a radical libertarian who once characterised the federal government as a “leviathan” that is “crushing everything in its path.” As Alabama's attorney-general, Mr Pryor set up a group to raise corporate money for Republican campaigns.

Most of the views for which the judges have been hauled over the coals were actually uttered outside courtrooms. Mr Bush makes a great fuss about appointing judges who respect the constitution. How will his three choices do when it comes to balancing their personal views—some of which are clearly at odds with settled law—with their rulings on the bench?

The question matters because the federal appellate courts do a huge amount of America's legal case-work. They sit right below the Supreme Court, which accepts only a tiny portion of appeals. The Court of Appeals for the District of Columbia, to which Ms Brown will be confirmed, is the second most important court in the land as it has jurisdiction over most federal regulatory issues. It is also a breeding ground for Supreme Court justices.

From this point of view, the track record of Ms Brown and Mr Pryor should reassure sceptics a little. Both are deemed “qualified” by the American Bar Association (ABA), an organisation conservatives moan about. In 2002, Ms Brown was chosen by her colleagues to write for the majority's opinion more often

than any other justice. She won her retention election to the California State Supreme Court easily in 1998, having been endorsed by the *Los Angeles Times* and the *San Francisco Chronicle*, hardly conservative bastions.

In Alabama, Mr Pryor ordered the removal of the chief justice of the state's Supreme Court for not complying with a court order to get rid of a Ten Commandments monument he had installed in the lobby of the state's courthouse. Here, Mr Pryor followed the law even though, initially, he did not agree with the ruling.

Ms Owen gets a “well-qualified” rating from the ABA; and she was re-elected to the Texas Supreme Court in 2000 with 84% of vote. But her fellow justices, also conservatives, repeatedly scolded her for letting her own views interfere in her judgments—notably over the question of parental notification for minors' abortions. Mr Bush's current attorney-general, Alberto Gonzales, when he sat on the Texas court, accused Ms Owen of “an unconscionable act of judicial activism”, though he has since backtracked. It would be a great irony if conservatives, who rail against judges who legislate from the bench, have installed a judicial activist of their own on a federal appellate court.

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Richard Daley and Rod Blagojevich

Great balls of fire

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Two of Illinois's best-known politicians are in trouble

AP

Rod and Richard: waving, not drowning

ONE man has reacted to his troubles by getting red-faced and tense, with growing circles under his eyes. The other swings from light-hearted banter to macho boasting about his “testicular virility”. A year ago, Richard Daley, the mayor of Chicago, was touted as one of America's best, and Rod Blagojevich, the governor of Illinois, had aspirations for the national stage; now they are both in hot water.

Mr Daley, the scion of America's greatest urban political dynasty, is stuck in a growing City Hall corruption inquiry, led by an aggressive federal prosecutor, Patrick Fitzgerald. The mayor has not been implicated in anything personally, but a month ago Mr Fitzgerald sent federal agents armed with search warrants to seize personnel records from one of the mayor's offices and the city's water department, which he also controls. An expanding list of indictments is gradually moving up Chicago's political ladder, at the very least threatening the mayor's legacy.

A *Chicago Tribune* poll, released this week, gave the once invincible mayor an approval rating of 53%, his lowest since he took office in 1989, and less than half the voters want him to run again. It also showed him running just behind Jesse Jackson junior in a putative Democratic primary. The black congressman, who is the fiery reverend's son, hasn't declared his intentions, but he looks fighting trim after weight-loss surgery last December.

Mr Blagojevich was elected in 2002 as a Democratic reformer to clean up state government after George Ryan, his now-indicted Republican predecessor. But Mr Blagojevich's administration is now itself the subject of a grand-jury investigation for allegedly peddling jobs and making appointments in return for campaign contributions. This inquiry, led by the state attorney-general, Lisa Madigan, has subpoenaed dozens of his staff. Mr Blagojevich's approval ratings are now worse than the mayor's: only one-third of voters polled this month say they would re-elect him to a second term.

So what is it about Illinois? Plenty of states have had periods of scandal. They tend to throw the bums out, and a semblance of normalcy returns. But in Illinois scandal is the norm. As well as the clouds engulfing the governor and the mayor, Mr Ryan's trial is due to begin later this year. And an aide to the former state House minority leader, Lee Daniels, has just been indicted in a ghost-payrolling scheme.

Messrs Daley and Blagojevich are both trying to fight back. After 16 years in office and countless denials

of political influence-peddling in city government, the mayor this week suddenly decided to announce an overhaul of city hiring with the goal of eliminating favouritism. In February, he stopped accepting campaign contributions from firms and individuals that do business with the city.

Mr Blagojevich blames his woes on a messy family feud. His path to office was paved by his father-in-law, Richard Mell, an influential city alderman with whom the governor has since fallen out. Mr Blagojevich blames Mr Mell for blowing smoke about nothing; and he has boasted about his own “testicular virility” in shaking up the status quo and facing down his father-in-law. But he has not been helped by the recent resignation of his inspector-general, whom he hired two years ago to launch a new state office aimed at rooting out wrongdoing.

Alas for Messrs Blagojevich and Daley, the current probes coincide with severe budget squeezes and cuts in public services. “It looks like people are getting rich all over the place, and it makes ordinary citizens wonder ‘What is it costing me?’”, points out Cindi Canary, of the Illinois Campaign for Political Reform.

Both Messrs Daley and Blagojevich hope to stand for re-election in 2006. The former, who won nearly 80% of the vote last time, will be hard to beat: he is given credit for turning Chicago into a world-class city. Yet Mr Daley relies heavily on minority votes. If Mr Jackson runs, that could draw away blacks. And notwithstanding the role in Mr Daley's office of the Hispanic Democratic Organisation (which doles out city jobs), he could also lose votes if a Latino challenger emerges.

Mr Blagojevich is probably safe from the Republicans: they are still licking their wounds after last year's humiliating Senate campaign, where they ended up being represented by Alan Keyes, a hyper-conservative out-of-stater. Ms Madigan, the young Democratic attorney-general, is more of a threat in the long run. Not only is she probing the Blagojevich administration; she is also the daughter of the state's powerful House speaker, who, as it happens, holds the key to Mr Blagojevich's budget getting passed.

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The housing market

Frenzied froth

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More evidence that the housing market has lost touch with reality

AP

Framing the problem

A PLAYBOY playmate wants to junk modelling and become a property investor. A 22-year-old Nevada property entrepreneur gets lost driving to one of his eight houses. The number of property investment clubs has quadrupled since 2002. California's Department of Real Estate, which administers the test taken by would-be estate agents, has doubled the number of test centres to deal with the surge of people who want to sell houses.

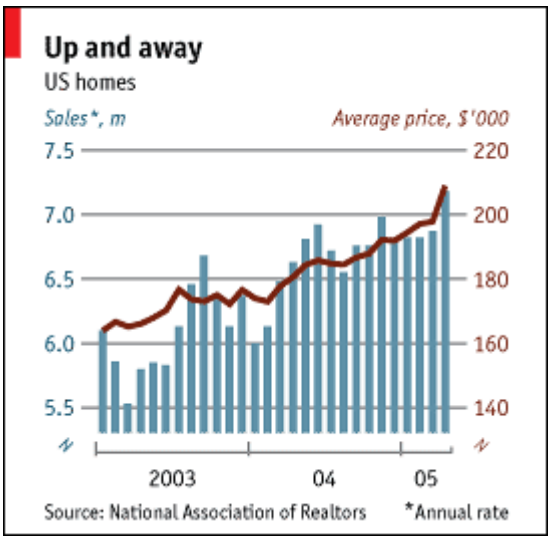
Some sceptics, including this newspaper, have long argued that America suffers from a housing bubble. Now most analysts accept that there is indeed a bubble at least in some areas, notably southern California, Florida and the north-east. Opinions differ, however, on just how big and widespread the bubble is.

Central bankers have clearly become more worried. Alan Greenspan still argues that the large and diversified nature of the housing markets makes a national bubble unlikely, though he admits to “froth” in some places. In a speech on May 25th, Jack Guynn, head of the Atlanta Fed, said he was “uncomfortable” with residential speculation in some markets.

The latest statistics certainly suggest frothiness. In the month of April, sales of existing homes rose 4.5% to a record 7.18m, at an annual rate, while prices soared. The cost of a median single-family home rose 15% in the year to April, topping $200,000 for the first time, while the price of a condominium went up 18%. These rates of increase haven't been seen since the 1970s.

These trends are clearly not sustainable. For a start, the pace of home building is running far ahead of demography. As economists at Goldman Sachs point out, residential investment, at 5.75% of GDP, is at the top end of its range over the past four decades, while the trend growth rate in the number of new households being formed has slowed to 1%. Although the baby-boomers' penchant for second homes explains part of the difference, it plays a small role. According to the Census Bureau, second homes account for only 5% of America's housing stock. There are, as yet, few signs of oversupply—with housing inventory levels at near-record lows—but that may be a sign of speculative frenzy more than a real shortage of homes.

Thanks to those rising prices, houses are now far more expensive in relation to incomes. Until the late 1990s median house prices were 2.75 times median income. That ratio has risen to 3.4. Arguably, lower mortgage rates justify some of this rise. But even if you look at mortgage payments in relation to household income, many people look stretched.



Economists at Goldman Sachs have calculated this “affordability index” for 23 cities. They found that even with low interest rates the frothy coastal areas had affordability ratios that were well above their long-term average and close to the peaks they hit in 1981 and 1989 when mortgage rates were far higher. Other evidence also suggests coastal home-buyers are particularly stretched. Interest-only mortgages, where buyers pay no principal, accounted for 17% of all American mortgages in the second half of 2004 but more than half the market in California.

At a minimum, this surely spells trouble in the most frenzied coastal property markets, which after all are home to between a quarter and a third of American households. If today's low interest rates start rising quickly, that trouble could spread far further.

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Policing and Tasers

Zap and protect?

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Arguments about stun guns

THE officer used his Taser stun gun for the first time after a car chase in the rougher part of Pittsburgh. Spotting the car thief fleeing across a field by foot, Sergeant Stephen Matakovich yelled “Deploying Taser!”, waited, positioned the red laser on the man's back and shot. The man collapsed. Sergeant Matakovich and his partner ran over. “How was it?” they asked. The suspect groaned. “Terrible! Don't ever do that to me again!” Since then, the sergeant has “Tased” only six suspects. The mere sight of it makes people comply. “They absolutely hate it.”

After a successful pilot scheme, Pittsburgh's city council began arming its police with Tasers last year. Some 200 officers now have the fairly large M26s; another 20 undercover narcotic agents have smaller X26s. The city wants every officer to have a Taser. The director of Pittsburgh's Citizen Police Review Board, Elizabeth Pittinger, argues that the stun guns, which cost $400-800 each, are safer than real guns.

Tasers are certainly powerful. The M26s deliver a 50,000-volt shock through two barbed darts, which incapacitate people for five seconds. Most of the debate about their use concerns their effect on people with weak hearts. Roger Barr, a professor of biomedical engineering at Duke University, argues that the way they work—sending an electric current through the body and contracting nerves—affects the heartbeat and can kill some people.

This certainly happens. In Lucas County, Ohio, a coroner ruled in mid-April that multiple Taser shocks helped kill a prison inmate with a heart condition. Last year, an Amnesty International report attributed 103 deaths in the United States and Canada to the stun guns. Amnesty also claimed they had been misused against children and the elderly. It wants a moratorium on Taser use until independent studies have been carried out.

The American Civil Liberties Union is also filing Taser investigations with police departments. Its Texas branch wants them declared “lethal weapons” (as opposed to being on a par with Mace, as they now are). Police departments in Chicago and Kentucky are delaying deploying new Tasers until they have examined reviews.

Taser International, which makes the zappers, disputes Amnesty's findings. It claims that Amnesty ignored other independent studies, which show that Tasers are not lethal and only hurt people once for every 15 times they are used. It compares the current fuss to the scrutiny of pepper-spray, which is now widely used, in the 1980s. “A headline reading “Taser Kills Man” is just inflammatory and inaccurate,” says a spokesman.

Pittsburgh's police agree. They suspect many Taser-related deaths may have more to do with alcohol or drug use. Deployment reports will monitor any potential abuse. And they believe that the stun guns have saved officers' lives. “It's dangerous for us out there too,” says Sergeant Matakovich, pointing to the housing projects.

Few of the general public are likely to object to a weapon that hurts a lot. But one group that feels targeted by Tasers, at least in Pittsburgh, are poor blacks. They call it “the chair” (after the electric chair). Outside Family Pride Poultry, a fried-chicken store in East Liberty, a poor district, Charles Watts, a 68-year-old retired rubbish collector, worries about his friends who have pacemakers. What happens if they get zapped? “Then it's too late,” says Mr Watts, his eyes huge. “You're dead!”

These worries may say more about relations between police and poor blacks. But the Tasers certainly

scare policemen too—if one training session at Pittsburgh's Police Academy is anything to go by. Having tried out the gadgets on some volunteers, the trainer then showed videos of the Taser in action, with various muscular-looking people collapsing when hit. He then asked the 18 officers present to volunteer for one last demonstration. None of Pittsburgh's finest stood up.

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This sporting life

In praise of noodling

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What real men do nowadays

Greek wrestlers or idiots?

IN THIRTEEN states, noodling is good dirty fun; in 37 others it may land you in trouble with the law. Hand-fishing for giant catfish is a primeval calling for some of the rougher outdoorsmen of the South and mid-west—and as one puts it, a $500 fine “takes the fun out of it”.

Noodling is a little akin to “tickling” salmon in Scottish burns, but a lot messier. The noodler, empty-handed and stripped to the waist, wades along riverbank hollows, rooting underwater with his hands. Finding a hole in the muck, he wiggles his fingers inside it, where they sometimes tempt the snapping jaws of a whiskered catfish, defending its brood. (Some suppose “noodlers” are named after this finger-waggling; others, many of them with scarred hands, admit it is slang for “idiot”.) Then the fight is on: a good noodler forces both hands down the fish's maw, wraps his legs around its tail and heaves the beast, which can weigh 50lbs (22.7kg), to the surface. Bloody but proud he stands, more Greek wrestler than aloof fly-fisherman.

Conservationists are not so keen. They fear the noodlers' taste for big, spawning specimens could harm catfish populations. Females can take seven years to reach sexual maturity. When a fisherman catches a 40lb catfish, he may be killing a 30-year-old animal. Noodlers reply that big catfish eat little catfish. But their real defence is that, given that you have to be a bit of a fool to try it, noodling is likely to remain a minority sport.

On June 1st, after fierce lobbying by a local group called Noodlers Anonymous, Missouri will open its first season of legal hand-fishing. But it will only be a six-week experiment. And of the three authorised rivers, only one is well suited to noodling. Registered noodlers are to file reports about their catch, which the state's Conservation Department will analyse, before loosening the rules further. One conservation official considers the season primarily as an opportunity to learn more about catfish, which are notoriously hard to count and study.

It should also reveal something about the noodlers. Some 467,000 Missourians hold licences to catch catfish with hook and line. Of the 2,000 estimated to have noodled in Missouri's waters illegally, only 21 have applied for the new $7 hand-fishing permit. Whether they are untamed primitives, Greek wrestlers or just plain idiots, noodlers like to live dangerously.

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Bombs and medicine

Looking the other way

May 26th 2005 | NEW YORK
From The Economist print edition

A controversial surprise tucked into the energy bill

BUILDING nuclear bombs and curing cancer may seem unconnected pursuits. But both often start with highly-enriched uranium. Hence the interest in a few paragraphs hidden in the energy bill that is now being reviewed by the Senate: an amendment, originally sponsored by Richard Burr of North Carolina, that would loosen restrictions on the export of highly-enriched bomb-grade uranium.

Uranium is deemed to be “highly enriched” when at least 20% of its mass is the isotope U-235. At a concentration of 90%, uranium becomes weapons-grade, and easier to mould into a bomb than plutonium. This explains why 19 years ago most American civilian reactors were banned from using highly-enriched uranium.

By contrast, Canada and some European countries let companies use weapons-grade uranium to make radioactive medicines. Isotopes derived from this uranium are crucial to the diagnosis of cancers and other illnesses. The biggest manufacturer of such isotopes, a Canadian firm called MDS Nordion, estimates that 35,000 patients a day are treated with its medicines, and that they are used in three-quarters of all nuclear-medicine procedures.

To keep the Nordion plant humming, America's Department of Energy sends around 22kg of weapons-grade uranium to Canada annually. It has sent as much as 500kg over the past 20 years. Nordion's stuff ends up at a facility near Ottawa. For 13 years, America has tried to wean foreigners off using highly-enriched uranium in favour of a less enriched substitute. American incentives and penalties have persuaded manufacturers in Argentina to produce isotopes using only low-enriched uranium. Mr Burr's amendment would change this policy. America would still promote the use of low-enriched uranium, but with much less urgency and only where switching to it would push up the producer's costs by “less than 10%”.

Mr Burr and other champions of the medical industry noted that American firms and patients depend on Nordion for isotopes; it would be inconvenient for Nordion to convert its facilities to the use of low-enriched uranium. Nordion says the use of low-enriched uranium causes more pollution and is costlier (though anti-proliferation people dispute that). What is beyond dispute is that, if the amendment goes through, more bomb-grade uranium will be free to travel around the world.

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Purgatory without end

May 26th 2005
From The Economist print edition

Why is America still so prone to wars of religion?

IN 1782, a French immigrant named Hector St John de Crèvecoeur predicted that America was destined to be a much more secular place than Europe. In America “religious indifference” was rapidly becoming the rule, and “the strict modes of Christianity as practised in Europe” were being lost. “Persecution, religious pride, the love of contradiction, are the food of what the world commonly calls religion,” he argued. In America, their absence meant that religious passion “burns away in the open air, and consumes without effect.”

Suffice to say that de Crèvecoeur has not found a place alongside Alexis de Tocqueville as an anatomist of the American soul. In Europe religion doesn't rise to the level of burning away “in the open air”; in fact, it barely smoulders. Most European politicians would rather talk about sexually transmitted diseases than their own faith in God. The hugely bulky European constitution doesn't mention Christianity.

America's policymakers, by contrast, don't seem to talk about anything else. Look at the issues that have dominated the past week: the Supreme Court's decision to take up an abortion case, George Bush's threat to veto a bill on stem cells, even the tortuous debate about filibusters. Religion is at the heart of each one. Or listen to the activists talk. From the left, Howard Dean, the chairman of the Democratic Party, warns that America risks being turned into a “theocracy where the highest powers tell us what to do”. Lou Sheldon, head of the Traditional Values Coalition, talks darkly of “the all-out assault on Christians being waged by our government, by America's educational institutions, by the media and throughout popular culture”.

Why are Americans so keen on arguing about religion? The answer is that America is simultaneously a highly religious culture and a highly secular one. The public square is all but naked when it comes to religion. Public schools cannot hold school prayers. Americans have taken to wishing each other the ghastly “Happy Holidays” rather than “Happy Christmas”. Step over the line dividing church from state and there are plenty of aggressive secular interest groups that will push you right back again.

But at the same time religion—and particularly de Crèvecoeur's “strict” religion—is thriving. In the 2004 presidential exit polls, most Americans described themselves as regular churchgoers. Only 10% admitted to having no religion. A higher proportion of Americans say they would be willing to vote for an openly gay presidential candidate (59%) than an openly atheist one (49%). Evangelical or “born-again” Christians make up a quarter of the population; and they are on the march.

In the wake of the creationist “Scopes monkey trial” in 1925, the evangelicals (though technically victorious) realised they had lost the PR battle, and retreated from American public life. Now they are popping up all over the place, from the bestseller lists to pop music. In the wake of Scopes, the Bible Belt (H. L. Mencken's tag) was seen as a home of hicks. Now evangelism is the religion of the upwardly mobile, of McMansions and office parks, with evangelicals almost drawing level with (traditionally upper-crust) Episcopalians in terms of wealth and education.

Over the past 25 years, these more confident evangelicals have become the most powerful voting block in the Republican Party. Now they want to redefine the boundaries of church and state to make more room for public displays of religiosity and for faith-based social policy, and to put the “culture of life” back at the heart of the American experiment.

For evangelicals all these positions are as mainstream as it comes. They point out that the banishment of religion from the public square is a recent development. You only have to go back to 1960 to find children praying in schools and Hollywood sentimentalising Christmas. They point out that *Roe v Wade* (1973), which protects abortion, was a wonky decision, based on a post-modern reading of the constitution; and that the revolution that removed religion from public life has led to social breakdown.

Yet for a growing number of secularists these positions are the very definition of extremism. School prayers are unAmerican. For them, *Roe v Wade* is up there with *Brown v Board of Education* in the pantheon of Supreme Court rulings. And they regard the past 40 years as a period of enlightenment, not breakdown. These secularists are as determined to preserve the status quo as the Christian conservatives are to reverse it—and they have made the Democratic Party their shield.

One party under God

Which all suggests that America's religious wars are only going to intensify. Fourteen moderate senators averted a nuclear explosion over conservative judges this week; but explosions over the issues which made those judges controversial seem all but inevitable. Just wait for the next Supreme Court ruling on abortion. Or for the next vacancy on the court to open up.

The polarisation of politics along religious lines is deepening by the day. George Bush won eight out of ten “values voters” in the last election, and the identification of the Republican leadership with the religious right has tightened during the struggles over euthanasia and gay marriage. And there are also deeper reasons. The constitution's ban on Congress intervening in religion is vague enough for conservatives to say that this was just stopping an official state religion, and for secularists to say it set up a wall between religion and the state. Similarly, America's division of powers means that the courts are constantly being asked to give firm answers to profound questions such as when life begins and ends. Europeans fudge these issues, by leaving them more often to parliaments to find political compromises.

Forget today's crowing about the ceasefire in Congress. America's wars of religion will get a lot nastier before any long-lasting peace can be declared—if ever.

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Mexico

Will the real Andrés Manuel López Obrador please stand up?

May 26th 2005 | MEXICO CITY
From The Economist print edition

Questions surround the front-runner in the presidential election

Get article background

EACH weekday morning at 6.30am, Andrés Manuel López Obrador, the left-wing mayor of Mexico City, gives a press conference. Nowadays, these affairs feature fewer queries about traffic congestion or water shortages and many about economic and foreign policy. A presidential election is not due until July 2006. But only two questions matter in Mexican politics today. Can anyone stop Mr López Obrador from becoming the next president? And if he wins, who will he most resemble: a responsible social democrat like Brazil's Lula or a reckless, authoritarian populist like Venezuela's Hugo Chávez?

The answers matter not just to Mexico but to the United States, its neighbour and partner (with Canada) in the North American Free Trade Agreement (NAFTA). After its 1982 debt crisis, Mexico moved steadily towards a free-market economy and democracy. These steps culminated in 2000 in the election of Vicente Fox, a pro-American businessman who ended seven decades of rule by the Institutional Revolutionary Party (PRI). In office, Mr Fox has proved a huge disappointment. He has failed to push through promised economic reforms, or to set up new political institutions to replace the all-powerful presidency of the PRI's rule. Although the economy grew by 4.4% last year, this followed three years of stagnation, which has undermined public support for reform.

The result is that next year's election seems likely to see a restoration of Mexico's *ancien régime*—in one guise or another. Although Mr López Obrador heads a left-wing party, he was a member of the PRI until 1988. Opinion polls give him around 40% of the vote. His support was boosted by a misguided government effort to bar him from standing by pressing contempt of court charges, a ploy which collapsed on May 4th. Most political analysts believe that his chief opponent will be the PRI's Roberto Madrazo, an economic pragmatist but an old-style political boss.

While Mr Madrazo can count on the residual strength of his party's machine, Mr López Obrador relies on his own considerable political skills. As mayor, he has pushed through road schemes, launched many other public works and handed out new pensions to the elderly. To Mr Fox's ineffective passivity, he offers a studied counterpart of can-do concern for the poor. At a recent early-morning press conference, he deflected awkward questions with jokes while displaying a showman's awareness of the cameras.

Mr López Obrador rejects the comparisons with Hugo Chávez or Lula. “You can't put it like that. Each country has its own history...I'm neither a populist nor a neo-liberal but a humanist,” he says vaguely. He slams the economic policy of the past two decades as a “failure” that has delivered “zero per capita growth”. (In fact, per capita income has grown since 1982, but at an unimpressive rate of around 0.5% a year.) But he told *The Economist* that he would maintain Mr Fox's strict macro-economic policy (“you can't have deficits”) while cutting wasteful spending on the bureaucracy and reassigning it to public works. He rules out throwing open Mexico's state energy monopolies to private investment. But he says that he would lighten the tax burden on Pemex, the oil firm, to allow it to invest more, so that “in three years” the country would be self-sufficient in gas and petrol. He would respect NAFTA but seek to add “co-operation for development” to free trade in goods.

All this suggests a pragmatist, but one who does not necessarily understand or welcome the kind of liberalising reforms that Mexico needs to get the most out of NAFTA or strengthen its democracy. “His vision is not a radical one but it's not a 21st-century one either,” says Denise Dresser, a political scientist at Mexico City's ITAM university.

Mr López Obrador is the target of virulent hatred from much of Mexico's business and political establishment. According to his critics, he obeys the law only when it suits him (the contempt charges arose from his administration's failure to comply with a court order in a planning dispute). He is said to lack principles and scruples: when two of his aides faced corruption allegations, his response was to publish (with taxpayers' money) a comic-book inciting class hatred against the rich. He is seen as a high-handed loner, a man of action who is short on substance and has contempt for technocrats. Like Néstor Kirchner, Argentina's president, he has little experience of the world. He takes pride in not having a passport.

In his favour, it is said that Mexico cries out for an effective politician at the top. Mr López Obrador might get things done where Mr Fox has failed to. His supporters say the mayor is an austere crusader for the poor who would arrive in the presidency unencumbered by political debts. He is “not tainted by the sweet deals” with businessmen that characterise Mexican politicians, says Rogelio Ramírez de la O, an economic consultant. Might he thus be the man who finally abolishes unfair economic privilege in his country, founding a true capitalist democracy?

Manuel Camacho, a former PRI cabinet minister and now a close adviser to the mayor, concedes that Mr López Obrador's economic policy is only “half thought-out”. He rejects any comparison with Mr Chávez more emphatically than the mayor himself (“100% No”). He says that the plan is for Mr López Obrador, who will step down as mayor in July, to visit Chile, Brazil, Spain and the United States in the autumn.

Under the PRI, Mexico rid itself of an earlier tradition of strongmen by granting the president great power—but for six, unrepeatable, years only and constrained by an elaborate balancing of interests. As a result, points out Enrique Krauze, a historian, Mexico “never had true populism”—the charismatic leadership exemplified by Argentina's Juan Perón. Such populist leaders were not just free-spending nationalists; they tended to remake institutions in their own image. Unlike Perón or Mr Chávez, Mr López Obrador is not a former army officer. But if he is indeed of their sort, the vanished disciplines of the PRI era are no longer there to restrain him. If he wins, the test for Mexico's still fledgling democratic institutions will be to constrain his undoubted political talents within the bounds of the law.

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Canada

After the vote

May 26th 2005 | OTTAWA
From The Economist print edition

The government limps on

Get article background

IT WAS the narrowest of victories, and it may yet prove to be a pyrrhic one. With the help of a prominent defector from the Conservative opposition, the votes of two independent MPs and the casting ballot of the speaker, the minority Liberal government of Paul Martin, Canada's prime minister, defeated (by 153-152) a motion of no-confidence. Neither side came out of this parliamentary battle on May 19th well. The Liberals have done nothing to alter the perception that they do not deserve to win an election that has merely been delayed, not cancelled. But the opposition Conservatives failed to project themselves as a confident government-in-waiting.

In the run up to the vote, Mr Martin had forged a short-term alliance with the leftish New Democratic Party. The price: C$4.6 billion ($3.6 billion) in new public spending added to the budget, the issue on which Stephen Harper, the Conservative leader, chose to call the no-confidence vote. On its eve, Mr Martin pulled off a tactical masterstroke by enticing Belinda Stronach, a glamorous Tory front-bencher, to join the Liberal government.

In his determined fight for survival, the prime minister has at least cast off his previous chronic indecision. But he has done nothing to diminish his party's reputation for cynical largesse with taxpayers' money. Mr Martin's woes stem from public anger over Liberal kickbacks in a C$250m scheme, set up by his predecessor, to promote federalism in French-speaking Quebec. The prime minister, who denies any knowledge of or involvement in the scam, says he will call an election only after a judicial inquiry into the affair is completed. He has given Ms Stronach the task of helping to implement the inquiry's recommendations.

Yet in the days before the vote, Mr Martin scurried across Canada in a publicly desperate way, offering millions for new federal programmes wherever his aeroplane landed. Nothing improper in that, and some voters may even reward the Liberals—or the NDP—for the extra spending on health care, day care and public housing in the budget. But it has all but destroyed the reputation for fiscal responsibility Mr Martin built in a decade as a successful finance minister.

Mr Harper's problems look more intractable. In his relentless push for the no-confidence vote, he allied with the separatist Bloc Québécois. That laid him open to the charge of playing political games with Canadian unity: because of anger over the sponsorship scandal, the Bloc looked set to make the biggest gains in an election unwanted by most Canadians. Many pundits were quick to denounce Ms Stronach for opportunism (she left not just her party but her boyfriend, its deputy leader). But her defection points to a deeper difficulty. Although Mr Harper has taken steps to nudge his newly merged party to the centre, many voters in urban Ontario and Quebec are repelled by its social conservatism. Ms Stronach, a millionaire businesswoman, friend of Bill Clinton and supporter of gay marriage and abortion rights, was one of the few leading Conservatives to appeal to such voters.

Mr Martin has promised an election by February at the latest. His chances of surviving until then were boosted when the Liberals won a by-election on May 24th. In the coming months, both party leaders have much work to do if the outcome of the next election is not to mimic the indecisive verdict of the last one.

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Cuba's opposition

Dissent and disagreement

May 26th 2005 | HAVANA
From The Economist print edition

Why Fidel Castro allowed a meeting of his foes to take place

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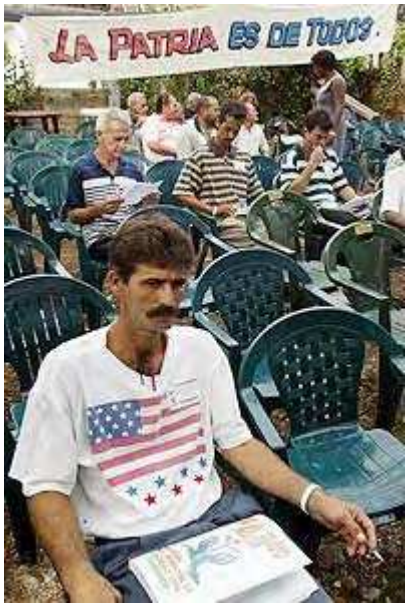

Fighting Stalinism with the American way

IT IS rare indeed for chants of “freedom”, “democracy” and “down with Fidel” to ring out from a back garden in Havana. That made the public assembly on May 20th and 21st of some 160 delegates from Cuba's small opposition movement an historic affair. What is less clear is whether the gathering hurt or helped the island's Communist president, Fidel Castro.

The meeting was (well) organised by a body called the Assembly to Promote Civil Society in Cuba, which claims 350 supporting groups across the island. Via a laptop, the delegates heard a video message of encouragement from George Bush. As foreign diplomats looked on, they elected leaders, debated policies and adopted a final declaration blasting Cuba's “Stalinist system” and “totalitarian dictatorship”.

Mr Castro has invariably squashed previous attempts to bring together illegal but more or less tolerated opposition groups. This time, the government denied visas to several invited European politicians, while throwing out others who turned up as tourists. But it let the assembly go ahead.

Why? The best guess is that Mr Castro reckoned that allowing the meeting would divide his foes still further. The assembly brought together the hard-line elements in the opposition. They did their best to live up to the Cuban leader's claim that all dissidents are pro-American “mercenaries”. Marta Beatriz Roque, the group's leader, works closely with American diplomats.

The event widened a split between Ms Roque's supporters and more moderate opposition groups, who stayed away. The moderates' best-known leader, Oswaldo Payá, a Christian Democrat, criticised the meeting as playing into Mr Castro's hands. He argues that the regime will use American involvement for propaganda attacks against the whole of the small but growing opposition. His movement was crippled when 50 of its organisers were jailed in a crackdown on dissent two years ago. (Ms Roque, too, was jailed, but was paroled last year on health grounds.)

Mr Castro may also have thrown a spanner into the European Union's heated debate on policy towards Cuba, due to be reviewed in July. By allowing the assembly he has given a fillip to those who last year pushed for diplomatic sanctions against the regime to be dropped. The banned would-be observers opposed this.

Stopping the assembly, on the other hand, might have undermined Mr Castro's demand that Mr Bush extradite Luis Posada, a Cuban exile arrested in Miami this month and wanted in both Havana and Venezuela for terrorist bombings. Three days before the meeting, the government mobilised a million people for a march past the American diplomatic mission on Havana's seafront. Mr Castro sees in the Americans' sheltering of Mr Posada an example of the hypocrisy of Mr Bush's “war on terror”. Doubtless he senses a propaganda victory over the issue—one well worth a shrewd tactical concession on the dissidents.

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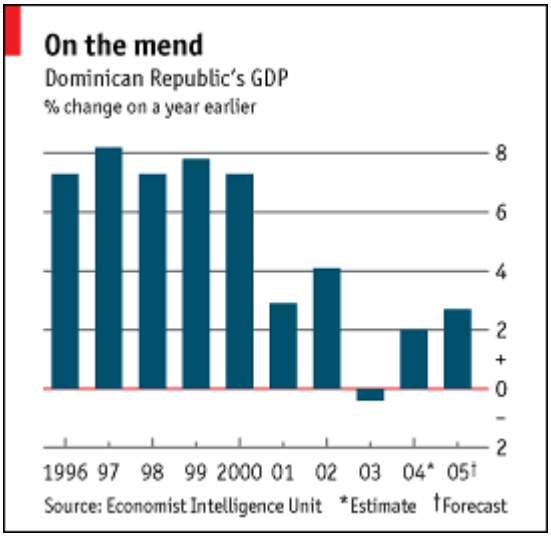
Dominican Republic

Half way back

May 26th 2005
From The Economist print edition

A cure but not yet a miracle



LAST August, when Leonel Fernández took office as the Dominican Republic's president, he faced an unenviable task. Four years of profligacy under his predecessor, Hipólito Mejía, including a dubious bank bail-out, had doubled the public debt and wrecked what was one of the Caribbean's success stories of the 1990s. The currency collapsed, inflation surged and capital fled. Now Mr Fernández, who in a first term from 1996-2000 presided over the economy's miracle growth, has laid a base for recovery (see chart).

His first job was to restore confidence in the currency by pushing through an austerity programme involving cuts in public-sector jobs, tax rises and tighter monetary policy. That was enough to secure a $665m loan from the IMF in February. This month, the government completed the restructuring of two sovereign bonds with a face value of $1.1 billion. In contrast to Argentina's rough treatment of its bondholders, Mr Fernández's approach was “market-friendly”; creditors holding 93% of the bonds signed up to the deal, which extends the term of the bonds by five years.

As a result of these measures, capital flight has abated and inflation has fallen. In the first quarter of this year, the economy grew by 4% compared with the same period last year.

The next tasks for Mr Fernández if he is to remain popular are to tackle corruption and poverty. Stop-start investigations into past scandals have tested public patience. But the president needs the support of Mr Mejía's party in Congress, and is treading cautiously. According to the World Bank, an extra 1.3m people (out of a total of 8.7m) slipped below the poverty line in 2002-04. The problem is that the formula which delivered rapid growth in the 1990s may not be repeatable.

The Dominican Republic has joined the Central American Free Trade Agreement. But even if this is approved by the United States' Congress, its clothing exports face difficulties. Its share of America's market has fallen as China's has surged. One in ten of the workers in the free-trade zones where the clothing factories are based has been laid off since December. The tourism industry is flagging too. Mr Fernández has nursed his country out of intensive care, but has work to do to restore its former vigour.

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Chile's army

Frozen in time

May 26th 2005 | SANTIAGO
From The Economist print edition

A tragedy exposes military flaws

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THE Chilean armed forces have long had a high opinion of their own professionalism, whatever some of their fellow-countrymen think of their abuses under the dictatorship of General Augusto Pinochet. The death last weekend of some 40 troops, killed in a freak Andean blizzard, was not just the army's worst peacetime loss. It has shaken confidence in the institution just as it had finally started to reform.

What makes the disaster harder for the grieving relatives to bear is that according to Juan Emilio Cheyre, the army commander, it could so easily have been avoided. All but one of the victims were raw conscripts, part of a battalion on a training exercise. They began a 17-mile descent from the high Andes as the snowfall started. They could have holed up in a mountain refuge. But their commanders either ignored or were ignorant of a weather alert, and ordered them to march, despite inadequate clothing.

The disaster followed the deaths earlier in May of three other conscripts in separate incidents. Many will conclude that the army remains as brutally careless of the young lives entrusted to it by Chile's poorest families as it was under the dictatorship. In fact, the army has recently made efforts to improve conditions for recruits, most of whom are now volunteers. It has set up an internal ombudsman.

Last year, General Cheyre for the first time acknowledged and apologised for the army's crimes under the dictatorship. In a departure from the institution's instinctive secrecy, he tried to be open about the blizzard disaster. But the army's obvious inexperience in public relations—it did not seem to know how many troops were on the exercise—compounded the shambles.

The army has only just begun a slow transition from the antiquated institution left by General Pinochet to a modern democratic force. That process is easier for younger officers than for their older and less-educated colleagues, who tend to have command over conscripts. One lesson is that the army could rely exclusively on professional soldiers. That is something it has hinted it would like, since they are more suited to peacekeeping missions in which it is taking part in Haiti and elsewhere. Another is that the army should get used to the idea that it is no longer a law unto itself. It has made a start: the three officers in immediate command of the conscripts face criminal charges. But it may be the institution itself which was at fault.

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Pakistan's leader

Getting comfy with the general

May 26th 2005 | RAWALPINDI
From The Economist print edition

Pervez Musharraf may prolong his rule; America would be pleased

Get article background

"I DON'T believe", asserts Pervez Musharraf, Pakistan's president, "in showing left and hitting right." It is a characteristically combative metaphor from a man who presents himself, with charming affability, as a straight-talking soldier with no patience for artifice. What you see, his bearing insists, is what you get. Yet what you get is an enigma: a deft politician, who claims to stay aloof from the political fray; an exponent of a moderate, liberal Islam, who panders to extremists; a professed democrat, who at the end of last year broke a promise to shed his uniform and rule as a civilian; one, moreover, who now seems to want to hang on to power after his presidential term expires in 2007.

Relaxing in civvies, General Musharraf nevertheless received *The Economist*—as he does most visitors—at the home that goes with his day-job of army chief. Army House is in Rawalpindi, a half-hour drive from Islamabad, whose broad avenues swarm with politicians and diplomats. The general seems in no hurry to leave either milieu. This month Sheikh Rashid, Pakistan's information minister and one of General Musharraf's part-time trial-balloonists, said his boss would be a candidate for president in 2007. The general refuses comment, but nor does he deny it. Asked elsewhere whether he would remain president but stand down as army chief, he replied: "Yes and no"—which is either an answer, or a refusal to provide one.

Yet for all his bluff disparagement of political wheeler-dealing, this appears to be General Musharraf's favourite game, and he is skilled at it. Having seized power in a bloodless coup in 1999, he cloaked himself, as president, with the bogus legitimacy of a rigged referendum in April 2002. Elections for the National Assembly later that year produced a civilian government led by loyalists in his faction of the Muslim League. But now he has spread consternation in the League by entering talks with the Pakistan People's Party, led by Benazir Bhutto, one of two exiled former prime ministers. The general says all he wants is that "the moderates should be strengthened and the extremists should be weaker." Yet he seems to be laying the foundations for a second term.

Many observers in America, especially, would cheer if General Musharraf dug in for a longer haul. He is a vital ally in the campaign against what is left of al-Qaeda and the Taliban in the Afghan border areas. America would probably also be pleased if he aligned himself with a civilian-led, avowedly secular, pro-western opposition party, such as Ms Bhutto's. Unlike, say, Uzbekistan's Islam Karimov, General Musharraf does present a liberal face to the world. If only his democratic credentials were less threadbare.

General Musharraf, once hated in India as the mastermind of a war in 1999, provoked by the incursions of the army he commanded into the Kargil district of Kashmir, is now also popular there. Relations with India, which in 2002 had sunk so low that war between the nuclear-armed neighbours seemed possible, are now probably better than ever. He believes the core dispute, over Kashmir (see article), could be resolved within a year, and should be settled while he and Manmohan Singh, India's prime minister, are still in office. A settlement, he suggests, should be guaranteed by the international community. This notion, which he says has just come to him, would horrify India. This adds to the impression General Musharraf's diplomacy often gives: that he makes it up as he goes along.

Foreign admirers swallow General Musharraf's self-portrayal as a bastion of "enlightened moderation" in a country at risk of a lurch into Islamic fundamentalism. Liberals in his own country are not so sure. He has failed to stand up for them in a recent controversy over the banning of mixed-sex street races. In one such "mini-marathon", in the eastern city of Lahore, about 30 activists were detained, including

Asma Jahangir, who chairs the national Human Rights Commission. She complained that General Musharraf has a soft face for the outside world, and a hard one for his own people. The sporty General Musharraf, who plays tennis most days, says, “I would like to run with them.” But, he adds, “I don't think society is prepared for that.” If the marathon had not been stopped, some women might have been killed. And yet Pakistan—with its seamy entertainment district in Lahore and thronging beaches near Karachi—is not always as intolerant as this suggests.

“Enlightened moderation”, General Musharraf explains, “is a strategic concept more than a tactical one”. The strategy is to uproot extremism by banning militant groups and by “mainstreaming” Islamic schools, or *madrassas*—that is, making them teach more than religious doctrine. Social changes—such as mixed-sex marathons—are “merely tactical signposts”: “You cannot impose liberal values.”

Over some forms of modernisation, however, General Musharraf is more militant: “We must finish tribalism and feudalism from Pakistan society.” This sounds ominous for the restive western province of Baluchistan. In March, 67 people died in a battle between tribal militiamen and government troops in the town of Dera Bugti, mostly when the government shelled a residential area. The president thinks further fighting can be avoided but insists that the key is to show the people that the “government's writ” is stronger than that of tribal leaders.

From a distance, General Musharraf can seem a rather fragile leader. His political party is in disarray, he is under attack from liberals, and at risk of a third assassination attempt by Islamist extremists, perhaps abetted by his own spies. Tribal separatists threaten war in one province. Taliban and al-Qaeda remnants still roam the borders. In Army House, however, the general seems just that: at home, and unlikely to move unless he has to.

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India and Pakistan

In from the cold

May 26th 2005 | DELHI AND RAWALPINDI
From The Economist print edition

A chance to match friendly rhetoric with practical progress

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WHEN they met in Delhi last month, Pakistan's president, Pervez Musharraf, and India's prime minister, Manmohan Singh, agreed that their two countries' peace process was “irreversible”. General Musharraf—who says he is anxious to “grasp the moment”, when India and Pakistan are led by men who trust each other—has since spelled out some possible ways to end the central dispute, over Kashmir; “the earlier the better,” he says. But Pakistan still seems far from proposing a solution India could accept. And after 58 years of hostility, including three wars, negotiations could take years.

Yet, in the shorter term, this week saw a chance for the two countries to end one of the most costly and certainly the most futile of their battles. On May 26th, senior defence officials from both sides met in Rawalpindi to discuss their 21-year row over the disputed Siachen glacier, high (more than 6,000 metres) in the Himalayas. Millions of dollars have been spent simply trying to keep soldiers warm there—though hundreds have frozen to death anyway—with India clinging on to a ridge of no conceivable strategic use. Still, it will not withdraw without a credible Pakistani guarantee not to occupy the vacated ice.

General Musharraf is blunt about why Pakistan has been in no hurry to provide such a promise. The conflict is an “unnecessary irritant”, he says, but it “is pinching them more than it is hurting us.” For that reason, Pakistan has been unwilling to decouple the glacier from the broader dispute over Indian-administered Kashmir, where both India and Pakistan claim sovereignty, and many Kashmiris yearn for independence from both. But if Kashmir is to be demilitarised, as the general wants, Siachen is a good place to start.

In Delhi, the two leaders mooted a baffling triangular framework for a Kashmir solution. This would acknowledge India's refusal to redraw boundaries, Pakistan's to accept the “line of control” that divides Indian- from Pakistani-controlled Kashmir, and also the growing “irrelevance” of borders in the modern world. Floundering for a formula to resolve these contradictions, General Musharraf talks of offering the people of Kashmir a tautology: “something between autonomy and independence, like self-governance”. This could be “over-watched” by all three parties.

General Musharraf has invited separatist leaders from Indian Kashmir to Pakistan, and India has agreed to let them travel. They are expected next week. This will allow General Musharraf to claim to have won a concession from India. It will also mark a tentative first stage in engaging the Kashmiris' own representatives in a tripartite dialogue over their future. The general also hinted that Pakistan might talk to mainstream Indian-Kashmiri politicians, people the Pakistani press routinely calls “puppets”.

None of this, however, would square General Musharraf's triangle. And that he is airing such ideas with a journalist might suggest that serious talk with India over Kashmir has barely begun.

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Mongolia

Faltering steppes

May 26th 2005 | ULAN BATOR AND NALAIKH
From The Economist print edition

An election marred by corruption claims passes peacefully

IN THE 15 years since they ended seven decades of Soviet domination and introduced democracy, Mongolians have grown used to voting. Unfussily, then, they turned out on May 22nd to elect a new president: Nambaryn Enkhbayar, leader of the ex-communist Mongolian People's Revolutionary Party (MPRP), who romped home in a four-man field with 53% of the vote. His nearest rival, Mendsaikhan Enkhsaikhan, of the Democratic party, won less than 20%.

Yet in the days before the election, powerful passions stirred. Local media railed against graft, a rising blight in Mongolia, an erstwhile darling of liberal development economists. Dark muttering of election trickery was also rife, with Mr Enkhsaikhan complaining loudest. On election day, his observers at several polling stations in Ulan Bator charged the MPRP with foul play. Yet the next day, Mr Enkhsaikhan graciously joined his victorious rival for prayers at the country's main monastery.

Mr Enkhbayar owed his triumph in part to his party's superior organisation; though voted out of office in 1996, the ex-communists swept back to power four years later. He was also helped by its association with the subsidies Mongolians enjoyed in Soviet times. With over one-third of Mongolians impoverished and growth threatened by graft, foreign aid must now be put to the most urgent use and jobs created. Take Otgonbayar, an unemployed coalminer in the town of Nalaikh. His main concern was that the government should honour its promise to pay a monthly child-support benefit of 10,000 togrog ($8.35). Only then, he said, could he buy flour to make bread for his family.

Mr Enkhbayar acknowledged such problems after his victory. Mongolia, he said, needed reforms that will “show results now—in one month or half a year, not 15 years.” But delivering these changes will be hard. He will have little control over the precarious coalition government elected last year, beyond being able to threaten it with a veto.

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Indonesia

At last, progress

May 26th 2005 | BANDA ACEH
From The Economist print edition

The government begins rebuilding what the tsunami destroyed

Reuters

Building from nothing

IT IS two months since Indonesia declared the end of emergency relief operations in its tsunami-wrecked provinces of Aceh and North Sumatra—where more than 165,000 were killed or went missing, and 595,000 were made homeless on December 26th—but only now is it getting serious about reconstruction.

To a dire mix of official inertia, frustrated donors and survivors depending on aid from non-governmental organisations, a promising new body, the Rehabilitation and Reconstruction Agency (BRR), has been added. It has been given four years to rebuild the region and, if its first three weeks are anything to go by, it will be a government body like no other: ie, clean, efficient, well managed and results-oriented. Leading the agency is Kuntoro Mangkusubroto, a former energy minister known for integrity, who agreed to take the job only after being given cabinet rank and freedom to hire a staff of about 150. One of his first moves was to bin most of the government's 12-volume reconstruction blueprint in favour of a community-driven approach that aims to give people hope without making unrealistic promises. So far Mr Kuntoro has approved projects worth $1.2 billion. These range from the crucial, such as rebuilding the road running down the west coast, from the provincial capital of Banda Aceh to the town of Meulaboh, to less urgent schemes, such as a plan to bring broadband to Aceh. By the first deadline for reconstruction proposals, May 20th, the BRR had 181 ideas.

Serious concerns remain over whether the momentum can be maintained, with money the biggest obstacle. Mr Kuntoro expects little government funding until September, although the planning minister, Sri Mulyani Indrawati, predicted this week that up to 4 trillion rupiah ($423m) will have been disbursed by the end of June. Included in the bureaucratic backlog is $500m committed to the World Bank-co-ordinated multi-donor trust fund, which is being channelled through the central government's budgeting process. The Bank chose this route in order to set a good accountability example to the government, but is already making provisions to take some of the funds off-budget if the delays continue. Meanwhile, the BRR is relying on two other cash sources. The largest consists of non-governmental organisations and international agencies, which have hundreds of millions of dollars available and are behind all 181 of the submitted proposals. The second is a special bank account created for people who want to donate but don't know where to send the money. It is currently empty.

Preventing—or, more realistically, limiting—corruption among Aceh's officials is another big challenge. Examples abound of local chiefs siphoning off a little bit here and there from aid budgets, or insisting aid

agencies use certain suppliers. The army, which in effect ruled Aceh for a decade before the tsunami, also needs handling with care. Mr Kuntoro has powers to ensure that those convicted of corruption in Aceh receive double the standard sentences. But tackling such deeply entrenched interests is often impossible.

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China

Plastic fantastic

May 26th 2005 | BEIJING
From The Economist print edition

An environmental dispute draws government into the open

IN RECENT weeks, Beijing's normally docile media have been getting into a fury over plastic sheeting, and whether officials were right to lay it on the bed of an imperial lake. A small matter, maybe; but one that has had big ramifications, pitting bureaucracies against one another and resulting in rare concessions to advocates of open government.

The plastic-sheeting project might well have gone unnoticed had it not been for a passing academic, who spotted it being laid on the often-dry lake bed at Yuanmingyuan, also known as the Old Summer Palace—an 18th-century extravagance destroyed by British and French troops in 1860. In a city acutely short of water, several parks use plastic to stop seepage. But the scholar feared for the environment and raised his concern in the local media.

In China, where public debate on government policy is normally suppressed, any opportunity to speak freely is seized upon: Beijing's newspapers, mainly the more competitive tabloids, leapt on the issue. Yuanmingyuan's special status as a site for “patriotic education” (on the depravity of foreign invaders) gave them cover to criticise officialdom—albeit low-level—using the language of patriotism.

The State Environmental Protection Agency (SEPA), hitherto a toothless bureaucracy, sensed its chance. At the end of March it ordered a halt to the plastic project pending an environmental review. This was embarrassing for the Haidian District government of Beijing, which was reportedly investing more than $3m in the project.

Last month SEPA went further, organising an unusually high-profile public hearing on a government-backed project, to which critics of the scheme were invited. This week, a senior Haidian official thanked the media for their criticisms and promised that his hitherto taciturn government would give them regular updates on the project.

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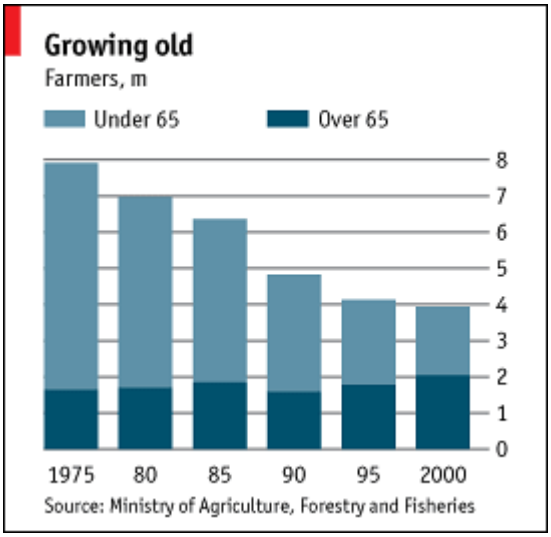
Japan's farmers

Facing the scythe?

May 26th 2005 | TOKYO
From The Economist print edition

If the World Trade Organisation frees farm trade, producers are in for a shock



Get article background

ANY foreigner who has lived in Japan has listened many times to the lecture about the sublime pleasures of the country's greatest crop: rice. Only a Japanese, you see, can appreciate the way that Japan's unique rice grains cling to each other just so; how ineffably beautiful they look when collected on the end of chopsticks; how the taste seems divinely created to complement Japanese cooking. And in truth, Japanese rice really is pretty good. But it is not five or six times better than foreign rice—whether grown in South-East Asia by poor farmers on cheap land, or more efficiently in America and Australia using similar short-grain strains to those planted in Japan. So the price of domestic rice in Japan is hard to justify. Only tariffs of some 500% keep it competitive.

Rice is only the most obvious reason why Japan remains ill-prepared for the freer sorts of farm trade that the World Trade Organisation (WTO) has been discussing since 2001, when the Doha round of talks began, and which the WTO hopes to agree on by next year. A few other agricultural goods—peanuts, dairy products, some beans—are also heavily protected in Japan. The government showers such crops with generous subsidies and price supports. It uses tariffs and quotas to ward off pesky imports. And to maintain the system, it nourishes the political soil with a homegrown fertiliser, a blend of raw special-interest arithmetic with public sympathy, nationalism and obfuscation. Though its trading partners protest, Japanese voters seem indifferent to the stench.

One argument that the government likes to spread about is the notion of self-sufficiency. Domestically-produced food, which supplied nearly 80% of Japan's calorie intake in 1960, now accounts for only 40%. Although it seems obvious that Japan's best hope of fending for itself is to trade advanced goods and services for cheap imports such as food, the civil servants in its farm ministry have long used this trend to frighten the public.

Lately, however, the voices of domestic reformists have grown a bit louder, and optimistic liberals hope changes will follow. Businessmen keen to promote bilateral free-trade deals, especially in Asia, have been pressuring the ruling Liberal Democratic Party (LDP) for farm concessions that might appease trading partners. Last year they scored a small victory when Japan agreed a deal with Mexico. By allowing freer imports of Mexican pork and orange juice, Japan has gained its carmakers and other manufacturers

access to a valuable North American market. But these were small steps; deals with Asian neighbours contain few farm concessions.

Even more important than lobbying by Japan's manufacturers, say some reformists, will be the accumulation of pressures within the farm sector itself. Japan is running out of farmers, only 40% of whom are under 65. Moreover, some 70% of farming households derive most of their income from non-agricultural activities. These part-timers have watched the value of their land fall dramatically since the property bubble burst over a decade ago, and have failed to make investments in their farms. Optimists say that with a growing cadre of elderly part-timers on small and unproductive plots of land, even the civil servants in the farm ministry will see that the system is unsustainable and be forced to act—if only to save the sector on which their influence depends.

Indeed, officials talk about reshaping farm policy to focus more on value and efficiency. The prime minister, Junichiro Koizumi, has pointed out that China represents a potentially huge export market for high-priced Japanese farm goods. The government has also been highlighting an alternative measure of "self-sufficiency", one showing that 75% of Japan's consumption—by value, rather than calories—is home grown. The overall idea is that Japan should stop wasting resources on crops that are cheaply available elsewhere. "Once they start thinking like exporters, they become like us," says an official from a country that has already liberalised its farm sector.

So far, however, this has amounted to little more than talk. Japan's behaviour in the Doha round of WTO farm-trade negotiations suggests it is hardly about to embrace competition. Its initial approach was to ally itself with the European Union (EU), in a naked effort to create an anti-reform axis. Although most of Japan's protection takes the form of import barriers and domestic price supports, it nevertheless argued in favour of the EU's export subsidies as well. When the EU changed its stance last summer, and agreed that reducing export subsidies should be part of any deal, the protectionist axis fell apart like a blob of cheap imported rice. Japan then hastily formed a loose alliance of anti-reform countries—including South Korea, Switzerland and Norway—known as the Group of Ten. The talks are now being driven by an informal group of five—America, Australia, Brazil, India and the EU—with Japan left out.

The farm ministry seems to be betting that the Doha talks will fail. Although it has put forward ideas for replacing price supports with direct subsidies, its plan would not much change farmers' behaviour. The key to that, as countries such as New Zealand have discovered, is to snap the link between the subsidies farmers receive and the decisions they make about what and how much to grow.

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Lebanon

It's the same old sectarian system—but without the Syrians

May 26th 2005 | BEIRUT
From The Economist print edition

AP

Can the Lebanese choose their leaders by merit rather than religious affiliation? Not yet—but quite a lot of them want to start trying

IN THE game of backgammon, the aim is to move your pieces past your opponent, who can block you by massing his own chips in their path. Until last month, Syria had much this effect on Lebanon, its troops and influence trapping politics inside a single quadrant of the country's intricate board. Most of Syria's chips have now been swept away by a mix of people power and outside pressure. Yet to many Lebanese, their politics still looks blocked. Most of the obstacles are sectarian.

The parliamentary elections which begin on May 29th should bring big gains to what Lebanese have come to call “the opposition”. Public anger against an establishment held in place by Syrian power since the end of Lebanon's long civil war 15 years ago still simmers. It boiled over in the wake of the assassination of Rafik Hariri, the country's most popular politician, in February. Huge street demonstrations brought down the government, forced the departure of hated security chiefs, and unleashed a wave of euphoria that crossed all the country's sects. It particularly touched the once-dominant Maronite Christian minority, which has felt marginalised since the war.

It is widely predicted that when the last of four rounds of voting ends in a month, the opposition will have captured up to 80 of the legislature's 128 seats. Fearing humiliation, some of Syria's staunchest allies have chosen not to run. Other candidates have been dropped from the lists of factions that no longer need to curry favour with Damascus by taking them on board. And some parties which previously faced Syrian-inspired harassment, such as the Lebanese Forces, which started as a wartime Christian militia, are entering the fray after a long absence. One notable new contender is Michel Aoun, a maverick former army commander who lost a bid to oust Syria during the war, and has now staged a dramatic return after years in exile.

But troubles persist. With Syria gone and its local allies in retreat, the opposition no longer has a unifying foe to oppose. The sectarian cracks that always bedevil Lebanese politics (in a country with 18 officially recognised “confessions”) have appeared in its ranks. This is hardly surprising, since Lebanese elections are run on a quota system that allots seats by sect. Muslims complain that Christians are given half the seats even though they represent less than 40% of the population. Christians reply that the way the country's 14 electoral districts are drawn dilutes their voice. Since most “Christian” seats happen to fall in

majority-Muslim areas, it is in effect Muslims who choose the Christians'MPs.

Another problem is that, because voters tend to back lists of candidates in their districts, rather than individuals, the power of choice goes as much to the political chieftains who make alliances and draw up such lists as it does to the voters. In Beirut, where the voting begins, nine out of 19 seats have already been won by default. Potential challengers have judged it useless to contest the list sponsored by Mr Hariri's 35-year old son Saad, who has inherited not only an immense fortune and the loyalty of much of the Sunni Muslim community but also the cachet of his father's “martyrdom”. In the Shia-dominated south and east of the country, meanwhile, an alliance between the two main Shia parties, Hizbullah and Amal, looks set once again to shut out potential rivals.

The system makes for peculiar alliances. One candidate on Mr Hariri's Beirut list, for example, is Solange Gemayel, the widow of Bashir Gemayel, who founded the Lebanese Forces and was briefly the country's president before being assassinated in 1982 following the ruinous siege of largely Muslim West Beirut by Israel, which Mr Gemayel encouraged. The Druze chieftain Walid Jumblatt, whose fighters fought vicious battles against Christian forces in the war, has included George Adwan, who once led a radical right-wing Maronite militia, on his list in the Druze-dominated Shouf region. Hizbullah, generally seen as pro-Syrian (and pro-Iranian), is running candidates on both Mr Hariri's and Mr Jumblatt's lists.

This stitching up of lists has proved a particular obstacle to Mr Aoun. His Free Patriotic Movement says it is the arch-opponent of Syria and a nationalist party that aims to overthrow what Mr Aoun condemns as the country's “feudalistic” political system. The large, cheering crowds that greeted his return from exile earlier this month proved the emotive power of such ideas. But, having failed to reach a deal with the Hariri and Jumblatt blocks, which form the core of the opposition, the newcomer now faces the ironic choice of allying in some districts with pro-Syrian politicians and local clan leaders.

Not surprisingly, all this pre-electoral horse-trading has dismayed many Lebanese. Turnout may be low. Not only are all too many old faces likely to remain in parliament—one expert reckons at most 30% of seats will change hands—but some of the new ones bring back ugly old memories. The fear is that while Lebanon's “Cedar revolution” may have succeeded in getting Syria out, it has yet to junk the country's own discredited order.

This is not the only fear. Lebanon must grapple with such challenges as a $33 billion national debt (among the largest in the world, relative to GDP) and how to disarm Hizbullah's militia, as demanded by the UN Security Council. (Hizbullah bragged this week that it had, and would keep, 12,000 rockets capable of reaching all of northern Israel.) In the longer run, too, as polls show, most Lebanese would dearly like to see the country move from closed confessionalism to a merit-based system, where democracy by proportional representation would be balanced by protection of minority rights.

Luckily, Lebanon's political class no longer seems immune to such popular expectations. The opposition's electoral alliances can be called opportunistic but they also reflect a will to compromise, share power and push for reform. Candidates of all stripes have sounded apologetic in public, vowing to alter the system once they are voted in. “We politicians will have a serious problem if we fail to recognise the message of the 14th of March,” says Mr Hariri, referring to a protest that brought a million Lebanese to the streets of Beirut, clamouring for change.

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Iran's presidential election

Who will run, let alone win?

May 26th 2005 | TEHRAN
From The Economist print edition

The mullahs' byzantine ways of vetting presidential candidates

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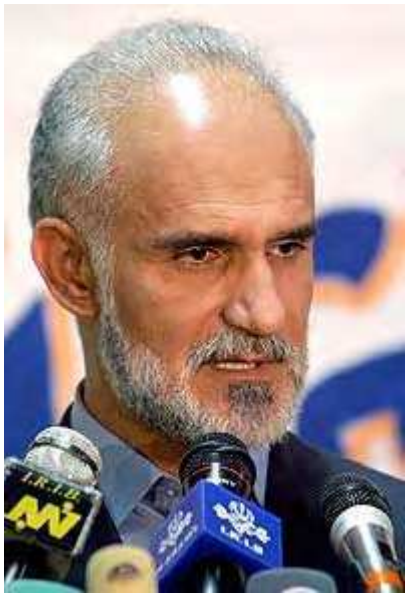
Reuters



The Moin who would be president

TO STAND aside in principled protest against the limitations of Iran's paternalistic semi-democracy, or to accept, in the name of expediency, a helping hand from the paterfamilias himself? That was the choice facing Mostafa Moin, Iran's main reformist candidate in next month's presidential election. Disqualified from standing by the Council of Guardians, a hardline watchdog body, his status as a candidate was restored on May 24th, thanks to the supreme leader, Ayatollah Ali Khamenei, who told the council to revise its decision to bar him and a second, less well-known, reformist. But, as *The Economist* went to press, the high-minded Mr Moin was still not sure to run.

The reformists' primary goal, ever since the council barred more than 2,000 of them from competing in last year's general election, has been to stave off extinction. But at what cost? Some reform-seeking voters feel that reformist politicians—from Muhammad Khatami, the outgoing president, down—have tainted themselves by compromising with conservatives, and that only by withdrawing from public life can they keep their ideals and integrity intact. If Mr Moin does now run, he may, in fact, become a less attractive candidate.

What has changed since last year's polls, when Mr Khamenei conspicuously failed to have those mass disqualifications reversed, even though Mr Khatami begged him to do so? Perhaps the supreme leader, despite his conservative leanings, wants to deny the reformists an excuse to turn their backs on the system. A boisterous election might generate a strong voter turnout, which would help Iran rebut American taunts that it is totalitarian. Finally, Mr Khamenei may be hoping to clip the wings of the established favourite, his old friend and rival, Ali Akbar Hashemi Rafsanjani.

A former president, Mr Rafsanjani was apparently prompted to run by polls suggesting he would win (the same ones put Mr Moin in third place) but he is the most divisive of the eight confirmed candidates. Earlier this month, Mehdi Karrubi, a mildly reformist contender, reminded voters that the Iran of Mr Rafsanjani's last presidency was distinguished by international ostracism, undemocratic politics, corruption and political violence.

The shadow of Iran's nuclear plans, which its government says are peaceful but which outsiders suspect are geared to bombmaking, falls across the campaign. Alone among the confirmed candidates, Mr Moin has suggested Iran might indefinitely extend its suspension of uranium-enrichment activities, but decisions on such strategic matters are not taken by the president but by a powerful coterie around the supreme leader. This week, threatened by their negotiating partners from Britain, France and Germany with referral to the UN Security Council, the Iranians pulled back—temporarily, they say—from a decision to restart some of these activities.

Some European diplomats in Tehran hope that if Mr Rafsanjani becomes president, he will urge Mr Khamenei to acquiesce in an indefinite suspension, in return for trade and other incentives from the EU and America. But Mr Rafsanjani knows from experience the dangers of being outflanked by hardliners: in public, at least, he sounds resolutely in favour of Iran pressing on with its nuclear plans.

Mr Rafsanjani's backers say he is a canny old hand, business-friendly and perhaps able to improve relations with the Americans. But Mr Moin could take votes from him. Enough to help one of four hardline conservative candidates sneak into a run-off if no candidate wins more than 50% of the vote? That may be part of the inscrutable Mr Khamenei's calculations.

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Iraq

Might the Sunni Arabs relent?

May 26th 2005 | BAGHDAD
From The Economist print edition

Amid the violence, some signs of hope

Get article background

AFP

A Sunnier outlook, perhaps

FOR a good week, a rumour has been buzzing around Baghdad that Abu Musab al-Zarqawi, the most bloodthirsty of foreign *jihadis* organising suicide-bombers and beheadings, has been wounded or captured. It is hard to tell whether an announcement on a website apparently affiliated to his Iraqi branch of the al-Qaeda movement, calling on Muslims to pray for his recovery, is genuine, though American forces have certainly been particularly active in the Euphrates valley towns thought to be his main refuge. The Jordanian Mr Zarqawi (who many Iraqis say is a figment of American imagination) has been a co-ordinator for non-Iraqi money and volunteers coming into Iraq. But even if he were put out of action for good, the insurgency would certainly go on apace—as it has, with even greater venom, since Iraq's new government took office last month.

Much more hopeful, for the new order, was a meeting last week in Baghdad of 1,000-plus Sunni Arab politicians and tribal and religious leaders, who gave one of the strongest signals yet that Iraq's former ruling minority, at the heart of the insurgency, is pondering participation in peaceful politics. Many delegates admitted that their boycott of January's election was a mistake. Others, including members of the conservative Muslim Scholars' Board, which had urged that boycott and endorsed the insurgency, said that Sunnis should vote next time. The group roundly condemned terror attacks on civilians.

At the same time, however, they upheld “legitimate resistance” against foreign forces in Iraq and called for Iraq's new interior minister, Bayan Jaber, to resign. At least one tribal sheikh said he would call his followers to *jihad* unless sectarian violence in his district subsided.

Such mixed signals show that Iraq's Sunni Arabs, perhaps a fifth of the total populace, are in a quandary. They particularly dislike the appointment of Mr Jaber, a member of the Supreme Council for Islamic Revolution in Iraq (SCIRI), which many Sunnis consider an Iranian cat's paw. And they blame death-squads made up of SCIRI's Badr militias and the interior ministry's Wolf Brigade for the recent murders of half a dozen Sunni clerics. One member of the Scholars' Board's governing council, later found dead, was reportedly grabbed from his mosque by uniformed troops, while another sheikh was said to have been shot by Wolf Brigade commandos while sleeping on his roof.

In the first flush of anger over these killings, some Sunnis, such as the board's secretary-general, Hareth al-Dhari, threatened to turn their backs on peaceful politics. But others argue that it is their past reluctance to get involved that has left Sunnis so vulnerable. This debate is taking place in many Sunni towns, where people chafe under raids, cordons, curfews, bombardments and the deployment of Shia or Kurdish troops from elsewhere. Sunni towns like Samarra and Ramadi witness divisions between older residents and merchants, who want to accommodate themselves to the new order in order to halt the violence, and younger men and former military officers and Baathists, who say that foreign occupation—or Shia domination—must be fought at all costs.

For the moment, after a rapid rise in sectarian tension earlier this month, the moderates seem to be gaining ground. Shia clergy called for restraint; the prime minister, Ibrahim al-Jaafari, vowed to crack

down on sectarian killers with an “iron fist”; and even the firebrand Shia cleric, Muqtada al-Sadr, got on to the peace train, declaring on television that he would try to allay sectarian grievances. The Sunnis issued a rare denunciation of the killing of a Shia sheikh, and Badr militiamen and clerics on the Scholars' Board met quietly to discuss their differences. Both sides, says an American official, “peered over the edge and decided that's really where they don't want to go”.

So far, however, there is little evidence that even the more prominent Sunni sheikhs have a decisive influence over the insurgents. Still, say the Americans, every time a Sunni cleric goes on television to question the wisdom of fighting on, some more insurgents will think about laying down their guns. Meanwhile, sectarian tension is still acute, with reports of communal clashes between Sunnis and Shias in the northern town of Tel Afar.

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South Africa's unemployment

Unions v jobs

May 26th 2005 | JOHANNESBURG
From The Economist print edition

Might the ruling party reform South Africa's rigid labour laws?

Get article background

FIVE years ago, South Africa's president, Thabo Mbeki, admitted that his country's labour laws might have had “unintended consequences”. Last week, his party issued a paper making explicit what those consequences might have been. It suggested that South Africa's massive unemployment—over 40%, by one measure—could be reduced if the labour market were more flexible.

For the African National Congress (ANC), a movement with close ties to the trade unions and the South African Communist Party, this is radical stuff. To South African businesses, which have complained for years about over-regulation, it is a no-brainer. Firing is such a costly headache that many prefer not to hire in the first place. Centralised collective bargaining—which allows large companies and trade unions to agree on pay and working conditions and then impose their standards on smaller firms in the same industry—strangles the little guys before they have a chance to grow big. Minimum wages have been growing faster than workers' productivity.

Measuring joblessness is both difficult and sensitive. Rigid labour laws push people out of formal employment, but not necessarily into complete idleness. Labour brokers, short-term contracts and black-market labour have flourished. According to Andrew Levy, a labour consultant, between a third and a fifth of jobs are informal. In sectors such as textiles, the proportion could be as high as 90%. Mr Mbeki argues that if unemployment statistics were correct, “nobody could possibly have missed the millions that would be in the streets and village paths actively looking for work”.

Nonetheless, even at the lowest estimates, unemployment is a big social problem. The ANC has floated a few ideas for easing it. It suggests reducing the “hassle factor” in hiring, though it does not explain how, and allowing some exemptions from the toughest rules, perhaps for young workers, or for those working in export-processing zones, small businesses or labour-intensive industries.

Leftists are livid. The main union body, the Congress of South African Trade Unions (Cosatu) says joblessness has nothing to do with labour laws. The problem, it says, is that businesses are not trying hard enough to create jobs. Zwelinzima Vavi, Cosatu's general secretary, points out that half of trade-union members earn less than 2,500 rand ($380) a month. “We have got low pay, and we're still not getting the jobs,” he says. The unions also gripe about trade liberalisation and the strength of the rand. They have launched a campaign urging clothes shops to stock at least 75% locally-made goods.

Cosatu is already at odds with the ANC and the government over several issues, such as Zimbabwe, AIDS and the way “black economic empowerment”—the policy of redistributing wealth into black hands—has enriched only a lucky, politically connected few. But this issue trumps all others. Cosatu will fight to defend what it sees as its members' rights. How far the government dares to liberalise the labour market will be an indication of how much the South African left still counts.

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Germany

Schröder's surprise

May 26th 2005 | BERLIN
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Reuters

With the chancellor having reacted to electoral defeat by dropping a political bombshell, the fallout may be even bigger than he expects

Get article background

IS IT a desperate act of self-destruction, by a politician who has been trapped and deprived of all escape routes? A brilliant manoeuvre to discipline left-wing dissenters within his party, and catch the opposition off guard? Or is it the act of a statesman who wants to save his country more than a year of political stalemate?

All these interpretations were doing the rounds for many days after Germany's chancellor, Gerhard Schröder, announced that he would try to bring forward parliamentary elections by a year, probably to September 18th, following the crushing defeat of his Social Democrats (SPD) in elections in their heartland of North Rhine-Westphalia, the country's most populous state. “Germans should declare by whom they wish to be governed,” Mr Schröder said in a brief, bitter statement.

Whatever Mr Schröder's motives, he has pushed Germany into an election campaign that looks certain to be one of the toughest in post-war history. Within hours, politicians sounded as if they were already on the trail. And everybody agreed: this will be a *Richtungswahl*—an election that decides which way Germany is to go. According to Franz Müntefering, the SPD's boss, it will pit “market radicalism” against “social progress”.

What is more, the early elections may well reshape the political scene, with the Greens as the main loser; they could end up out of power and without a partner. The Social Democrats (SPD) want to campaign on their own; this dooms the “red-green” coalition, which has governed since 1998. What is more, Oskar Lafontaine, the former SPD chairman, has decided to leave his party and try to coax ex-communists (the PDS) in the east and a new left-wing party in the west into forming a new organisation, which would certainly make it into parliament. And it is just possible that the neo-Nazi National Democrats (NPD) may clear the 5% threshold.

It was a remarkable turn of events, even for political insiders. Most thought Mr Schröder would ride out the storm, hoping that the economy would recover later this year or early next, and that his economic-reform package, known as Agenda 2010, would finally yield tangible results. Rather than doing anything

dramatic, the thinking went, he would move a bit to the left to placate the malcontents, but not enough to endanger his reforms. And later this year he might shuffle his cabinet. But in the end, the defeat in the state election was too devastating: the SPD won only 37.1% of the vote, its worst result in 50 years. Mr Schröder and Mr Müntefering had little choice but to seek early elections. Otherwise they would have been forced to fight a losing battle on two fronts until autumn 2006, when the next federal elections were scheduled to be held: this would have meant 16 months of agony, during which time the SPD could have fallen apart and seen its popularity plunge even further.

One front would have opened up within the SPD. Mr Schröder's government has only a slim majority in parliament, and a sizeable SPD faction sees his reforms as an unwelcome attack on the welfare system. Encouraged by Mr Müntefering's recent outburst against global investors, leftists have been devising measures they would like to see run alongside, or even replace, Agenda 2010. Another front would have opened in the Bundesrat, Germany's upper house, representing its 16 states. Because the SPD is still committed to “grand coalitions” with the Christian Democrats (CDU) in some states, the opposition does not have a two-thirds majority in the upper house, which would allow it to block some 60% of legislation, including the budget. But there is always the possibility that a premier who sits on top of one of these grand coalitions will jump ship—and allow his state to vote with the opposition in the Bundesrat instead of abstaining.

With his decision to seek early elections, Mr Schröder has managed to escape both traps. But many things must fall into place for him to have a chance of a third term; most of them are out of his control. And his own popularity—most Germans still want him as chancellor—is unlikely to save him this time. For one thing, early elections could be blocked either by the president, Horst Köhler, or the Constitutional Court. According to the constitution, the government cannot dissolve parliament. It needs to hold a vote of confidence, and then lose, for elections to be possible. And, as the Constitutional Court ruled after Helmut Kohl took the same route in 1982, the vote cannot be a fake. A chancellor, the judges said, needs to have real doubts whether he still has the support of a majority in parliament. What makes things easier is the fact that some SPD parliamentarians have let it be known that they won't support Mr Schröder in some reforms that are still in the pipeline.

More importantly, early elections may not be enough to discipline the SPD, or to keep a new left-wing party from becoming a force to be reckoned with. The SPD's left wing is still pushing hard not to run on Agenda 2010, which for them is the main reason for their party's decline. But Mr Schröder and Mr Müntefering only want to complement it with a set of even more social-democratic measures. As for a new left-wing party, it could win around 6% of votes, at least some of them from the SPD.

Even more decisive will be how the opposition reacts. Mr Schröder must have hoped that it would start bickering over its candidate for chancellor and its programme, as it has often done before. But since time is now of the essence, the opposite seems to be happening. It is almost a given that the CDU and its Bavarian sister party, the Christian Social Union (CSU), will name Angela Merkel, the CDU's boss, as their leader (see article). Finally, there is the economy. It would certainly help if it were to pick up in the months to come. But this seems highly unlikely. Although growth was 1% in the first quarter and unemployment has dropped to somewhat below 5m, no economist predicts a quick improvement. Growth in the first quarter was driven mainly by exports, which are likely to weaken, while domestic consumption and investment are still lacklustre. To add insult to injury, the federal budget deficit is skyrocketing.

If Mr Schröder has hardly any chance of winning, is there yet another reason for his move? Some observers think so: one possible outcome, they say, is that the CDU/CSU could be forced to form a grand coalition with the SPD. If the former communists or a new left-wing party and perhaps even the NPD make it into parliament, both the current government and opposition camps could wind up without a parliamentary majority. This scenario is rather far-fetched. But even if it doesn't come to pass, calling early elections may still have been the right decision. If the SPD wins at least a respectable result, Mr Müntefering should be able to rebuild it in opposition. In any case, the vote should allow Mr Schröder a graceful exit—and a decent place in history as a statesman who started reforms and knew when to quit.

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Merkel's rise

An iron-curtain lady

May 26th 2005 | BERLIN
From The Economist print edition

Skill as well as luck have propelled a meteoric career

EPA

Not always Kohl's girl

Get article background

TO ANGLOPHONES, German first names can often be false friends. They look easy to pronounce, but are hard to get just right. So world leaders should start practising now. After having learned to say Gerhard (GAIR-heart) they had better brush up on Angela (AHNG-eh-la, with a hard “g”).

If Angela Merkel, the 50-year-old boss of the Christian Democrats (CDU), becomes the opposition's official candidate for chancellor on May 30th (a near certainty) and wins the elections in September (a likely outcome), it will crown possibly the fastest political career in post-war Germany. Only 15 years ago, this pastor's daughter was still a professor of physics in communist East Berlin. But she was a politics buff, and ambitious; her entire household took a keen interest in events on the western side of the wall.

When the barrier came down, that proved a winning combination. She joined the East German CDU and became deputy spokesperson of the communist state's last (democratic) government. In 1991, the then chancellor Helmut Kohl, eager to promote an eastern woman, picked her out of obscurity, to make her first minister for women, and then environment minister. She was quickly dubbed “Kohl's girl”.

After his defeat in 1998, she became the CDU's general secretary and two years later, in the wake of a party financing scandal, the party's first chairwoman. In 2002, after another Schröder victory, she became head of the CDU's parliamentary group as well—and Germany's most powerful woman.

Has Ms Merkel simply been lucky in her choice of place and time? That would be unfair. Using her gift for long-term thinking, she has foiled many challengers. With a certain ruthlessness, she hastened her mentor's exit by writing a letter urging her party to jettison Mr Kohl because of his involvement in the CDU scandal. Within the ranks of the party, such tactics have gained her respect, but not much affection; that would have been hard anyway for an eastern, Protestant, childless woman—so very different from the Catholic family men who have usually dominated the German centre-right.

Ms Merkel has little sense of the touchy-feely side of politics, but she is not inhuman; in private she can

be quite funny. Oddly, she sometimes sounds like Mr Schröder's partner in third-way thinking, Tony Blair. (That is despite the fact she speaks only passable English, while her Russian is fluent.)

But she is more than a clever manipulator of the centre: witness her long list of planned reforms, which are quite radical in the German context: simplifying tax, overhauling pensions, reducing job protection and curbing the trade unions. In some ways, she resembles another single-minded lady, who rose from modest low-church origins and a scientific training to take her country by the horns and shift it in a rightward direction—Margaret Thatcher. Perhaps that explains why she also prefers the current British prime minister to Nicolas Sarkozy, who may well be her opposite number in Paris if he becomes president of France.

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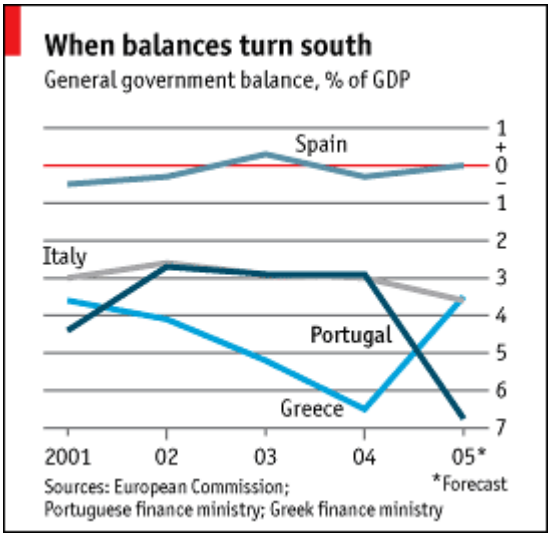
Portugal and Greece

The cost of spectator sports

May 26th 2005 | ATHENS AND LISBON
From The Economist print edition

An old political act is harder to play



THE script looks very familiar, especially in southern Europe. A party takes power and reports, on examining the state coffers, that they are in an even worse condition than anybody imagined. Wringing their hands in shock, the new masters say they will fix the damage as fast as they can.

This was an easy drama to present as long as the players, and the audience, were mostly domestic. But in the era of the euro zone, when the show is watched in Brussels too, the spectators are more demanding, and they can do more than say boo.

Still, why spoil a good show? Portugal's political class has been through the script twice; José Sócrates, the centre-left prime minister since February, is now playing the lead role. An audit he sought from the central bank showed this week that the deficit could soar to almost 7% of GDP this year. This would be the biggest breach by any country of the 3% limit set by the European Union when the euro began in 1999.

In 2002, the protagonist was José Manuel Barroso, then a centre-right prime minister, now head of the European Commission. The audit he ordered back then showed the previous Socialist government had run up a deficit of 4.2% of GDP, making Portugal the first country to face sanctions for violating the rules. He raised taxes, froze public-sector wages, closed state bodies and sold assets.

But after three lean years, Portugal is further than ever from a balanced budget, and it faces another austerity package. One reason is that one-off measures, from selling tax arrears to international banks to grabbing pension funds from state firms, took priority over deeper reforms to stem spending on public-sector wages, social security and health. The central bank says the 2004 deficit, officially 2.9% of GDP, would have been 5.2% without “cosmetic” measures. Mr Sócrates vows to stop such tricks and tackle root causes. He wants three years to get the deficit below 3%.

Meanwhile, Greece remains under scrutiny by Eurostat, the statistical service, after last year's crisis in its euro-credibility. Greece has escaped being fined, but it is not out of the woods. A two-year programme agreed with the commission calls for cutting the deficit from an estimated 6.5% of GDP in 2004 to 3.5% this year and 2.8% in 2006. Achieving this depends on high growth—this year's target is an ambitious

3.9%—and taking more tax.

But there are signs of post-Olympic fatigue, with private investment slowing and only marginal increases in tax intake. This week the OECD predicted growth of just 2.8% this year. This would mean the deficit shrinking more slowly, to 3.8% of GDP this year and 3.5% in 2006. A desperate rush to be ready for the Olympics, which pushed up the cost of the games from €4.6 billion to €7.2 billion, has accounted for about half the deficit overrun. Most of the rest came from restating the national accounts between 2000 (when Greece joined the euro zone) and 2003, to include $10 billion worth of arms purchases. The deficit topped the euro-zone ceiling of 3% of GDP in each year as a result.

George Alogoskoufis, the finance minister, says the revision was made to improve transparency. His Socialist predecessor, Yannos Papantoniou, said it was done to make the Socialists look bad and make it easier for the current government to keep the deficit below limits. The Socialists claim they followed EU rules that allow arms purchases to be paid off in instalments. However, Greece's reputation was damaged when Eurostat examined the accounts for 1998 and 1999—the benchmark years for its euro-entry—and found the deficit exceeded the 3% ceiling in both years. In euro-land, dumping on your predecessor means dumping on your country.

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Italian politics

Oopsadaisy!

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A party with a funny name breaks ranks, and dashes hopes

CAN Italy ever become a stable, two-party democracy? Recent events have left many Italians wondering if the answer might be no. More than a decade has passed since Italy overhauled its electoral laws to make possible a simple, British-style see-saw between centre-right and centre-left, which most voters would prefer. But progress has been slow.

In fact, the political scene is even more fractured now than in the days when coalitions dominated by the Christian Democrats rose and fell every few months. Then there were only eight parties that mattered. Today, at least 16 political groups are active on the national stage.

One obstacle to bipartisan democracy has been the retention of an element of proportional representation. Another is the survival of a Christian Democrat movement, split between right and left, whose members are reluctant to give up the dream of joining hands in the centre.

Most of today's parties are grouped into two rival alliances: Silvio Berlusconi's ruling conservative House of Freedoms and the so-called Union, made up of centrist and left-wing parties and led by the former European Commission president, Romano Prodi. But the squabbling among supposed allies is often more heated than the debate between rival alliances.

After the latest mutiny within his coalition forced Mr Berlusconi to resign temporarily as prime minister last month, he suggested he might not stand at the 2006 general election unless his partners joined him in a single, manageable party. The Northern League rejected the idea outright. The other main parties, the National Alliance and the Christian Democratic UDC, signalled profound misgivings.

These are tricky times for Mr Berlusconi. Last week, his party won a key local election victory. This week, he got another boost when a court overturned the conviction of his former lawyer, Cesare Previti, who had been found guilty of bribing judges on Mr Berlusconi's behalf to win control of Mondadori, a publishing house.

But Mr Previti, a close associate of the prime minister, still faces seven years in jail for judge-bribing in another case unconnected with Mr Berlusconi. The economy is in recession (the OECD predicted this week that it will shrink 0.6% by year's end). And the unions have voted for a programme of half-day strikes in June over public-sector pay rises.

The opposition's response to the government's woes? It split. On May 20th, the Margherita (“Daisy”) party, Italy's second-biggest opposition movement, opted for semi-detached membership of the Union. It will back its candidates for the Senate and the 75% of seats in the Chamber of Deputies decided on a first-past-the-post basis. But it will run against them for the remaining 25% of seats in the lower house allotted by proportional representation. Mr Prodi called it “suicide”. Even if the Margherita is eventually wooed back to full membership, considerable harm will have been done to the centre-left.

What Mr Prodi and Mr Berlusconi both grasp is something many of their followers cannot, or will not: that two political contests are being fought in Italy. One is over policies. The other is about which side can present a more united face to voters, who want a bipartisan system.

With the economy in a shambles, the right is losing the first race. But what the latest events show is that the centre-left is losing the second. Mr Berlusconi may be struggling to merge his allies into a party, but Mr Prodi is still battling to keep his supporters in an alliance. This means that Mr Berlusconi, for all his economic bungling, still has a chance of retaining power.

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The Black Sea

Oil over troubled waters

May 26th 2005
From The Economist print edition

A great game unfolds between America and Russia

IN CLASSICAL times, the Black Sea was perversely known as the *Euxeinos Pontos*, a sea friendly to strangers, even though its notoriously turbulent waters were nothing of the kind. The hope was that if you gave the place a nice name, the invisible powers who governed its towering waves might feel placated and behave more calmly. To this day, it remains a temperamental stretch of water that can generate sudden squalls and treat outsiders in unpredictable ways, even when efforts are being made to appease its restless spirits.

In 1992, the late Turkish president, Turgut Ozal, thought he could assuage those spirits for ever and turn the sea into a zone of peace and co-operation, where ancient trade routes would thrive anew. The fruit of that post-cold war vision is the Istanbul-based organisation for Black Sea Economic Co-operation. For over a decade, its members (all the littoral states, plus near neighbours Greece, Moldova, Albania, Armenia, Azerbaijan and, as of recently, Serbia) have trundled along to meetings without ever realising Mr Ozal's vision. The fact that Armenians and Azeris were locked in armed confrontation, backed respectively by Russia and Turkey, has hardly helped.

About a month ago, and entirely unnoticed by the world, BSEC suddenly did something rather unfriendly to a stranger. It flatly turned down a request from the United States for observer status. While the brush-off was explained in arcane procedural terms, it was an open secret that Russia had blocked the application—to the embarrassment of the group's other ex-communist members. In fact, eight of them issued a separate statement saying Uncle Sam's presence would have been a welcome boost, and they regretted his exclusion. (If NATO members Greece and Turkey had any feelings on the matter, they did not air them.)

What America would have done if it had attained its lofty ambition may never be known. But to judge by the word on the think-tank circuit, there is a strong feeling in Washington that the Black Sea region is ripe for transformation into a new sort of security club, whose members co-operate to keep ports and

pipelines safe from terrorists and other undesirables.

As steadily increasing amounts of energy flow into, and out of, the Black Sea, the stakes are certainly high. This week saw the formal opening, in Azerbaijan, of one of the world's most important energy conduits, a 1,770-km (1,010-mile) oil pipeline linking Baku in Azerbaijan with the Turkish port of Ceyhan via the mountains of Georgia. Gas from Azerbaijan, Iran and possibly east of the Caspian will soon be flowing along a similar route into Turkey, and thence to south-eastern Europe. The pipeline promises to bring a bonanza for Azerbaijan, and a modest boost to the hard-pressed finances of Georgia.

While America has taken the lead in lobbying for the construction of pipelines which bypass Russia, and therefore deny the Russians any chance to use energy as a political weapon, it is the European consumer who will be most affected by these emerging routes. On present trends, Europe's reliance on Russian energy will increase sharply, whatever happens; the new pipelines will ease that dependence.

But a complex pattern of interests is already emerging. A recently constructed gas pipeline has started bringing energy across the Black Sea from Russia to Turkey. That has reinforced a burgeoning economic relationship between those two historic competitors and made it harder for the Turks to side unequivocally with the Americans if the contest for influence in the Black Sea ever becomes a straight fight between America and Russia. Indeed one school of thought in Washington regards the “old NATO” partners, Turkey and Greece, as less reliable than the eagerly pro-American countries that have only recently emerged from the grip of communism, and are poor and vulnerable enough to be grateful for anything they get.

One reason for heightened American attention to the region is the sense that the future of many countries is still a wide-open question: they could follow Central Europe into the warm embrace of western institutions or they could slide back into authoritarianism or stagnation. Bruce Jackson, an influential American lobbyist for NATO's expansion, put the point dramatically in some congressional testimony in March: “The democracies of the Black Sea lie on the knife-edge of history which separates the politics of 19th-century imperialism from European modernity.”

The very fact that some parts of the region are quite advanced on the road to “European modernity” could be a divisive factor. One of the BSEC's more effective bits is its financial arm, the Black Sea Trade and Development Bank, which issues credits for export finance and cross-border projects. Its strategy director, Panayotis Gavras, says much the biggest factor driving investment in the region is proximity to the European Union; investors look eagerly at Bulgaria and Romania, which stand on the Union's threshold, and view other places far more warily.

As Britain prepares to take over the EU's rotating presidency, many people are expecting a fresh Black Sea initiative: something that would give heart to countries doing “well” in western eyes without dashing the hopes of the laggards and, if possible, without alienating Russia.

As Foreign Office mandarins ponder their options, they can take heart from some of the region's pleasant surprises. On June 6th, BSEC members will gather in Yerevan, the capital of Armenia, for a meeting of their affiliate bank. According to Turkish data, trade between Armenia and Turkey is precisely zero; the border is sealed, out of solidarity with Azerbaijan. As the delegates will observe, every shop in Yerevan brims with Turkish goods.

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Charlemagne

Another fine mess

May 26th 2005
From The Economist print edition

So whose bright idea was that constitution in the first place?

Get article background

THIS is not the time for recriminations. That can wait a couple of days. But as European leaders contemplate the strong possibility that the European constitution will go down to a double defeat in next week's referendums in France and the Netherlands, they may start to wonder how they got into this mess in the first place.

It would be comforting to believe that the drive to write a constitution for the European Union was unavoidable—comforting, but wrong. In fact, the political crisis that referendum defeats would be bound to bring was entirely avoidable. The partisans of the constitution sometimes argue that the whole exercise was needed to ensure that the EU could function with 25 members. Not so. The Union has already enlarged and its institutions are working. The constitution does include some improvements to EU procedures—such as a more democratic voting system, and an end to the farce of the "rotating presidency". But if European voters turn down the document, the EU will still function.

So if enlargement is not the explanation for the constitution, what is? To your correspondent, it always seemed clear that the driving force behind the constitutional movement were the advocates of the old dream of European political union. Gisela Stuart, the British member of the 12-person presidium that guided the work of the constitutional convention, came to a similar conclusion. In 2003, she wrote: "From my experience at the convention it is clear that the real reason for the constitution—and its main impact—is the political deepening of the Union."

It is also true that advocates of political union in Europe fell short of their key goals in the constitutional convention. In particular, the drive to decide EU foreign and taxation policy by majority vote was beaten back. Instead, the federalists had to settle for lesser achievements: the establishment of a Charter of Fundamental Rights; the creation of a European foreign minister; the first formal statement of the supremacy of EU law and the establishment of a legal personality for the Union; expanded powers for the European Parliament; greater EU power over immigration and policing—and so on.

None of these innovations has played a particularly prominent role in either the French or the Dutch campaigns. But what the Brussels insiders who drafted the constitution failed to realise is that the referendums would turn into a judgment on the European Union as a whole, and not simply the "advances" in the constitution. The Dutch antis have made much of discontent with the euro. French rejectionists have sometimes seemed to question the very concept of free trade within a single market—a principle that dates back to the Treaty of Rome in 1957.

The yes campaign's response to arguments of this sort—"But this was all agreed in 1992 or 1957"—has not worked. The Dutch never had a referendum on the euro, or on any of the other steps on the road towards European unity, so this is their first opportunity to register a direct protest at the way the EU has evolved. In France, Laurent Fabius, a Socialist advocate of *non*, argues that the single market was indeed excellent when it was first agreed—but adds that the context has been changed by the enlargement of the EU (which he supported) to include countries much poorer than France, such as Poland or Slovakia. Hence the French left's demand for a "social Europe"—which might export French-style labour laws (and their associated costs) to the newcomers to the Union.

Once again, this was a development that was barely anticipated by the framers of the constitution. Fixated by the traditional federalist agenda—as well as the power struggle between EU institutions—the constitutional convention paid relatively little attention to the advocates of "social Europe". Valéry Giscard

d'Estaing, the French chairman of the convention, did his utmost to prevent the formation of a working group on the subject—and although one was set up, its recommendations were largely ignored. It was only when EU governments began to rewrite the constitution that advocates of social Europe gained some ground. Largely at the insistence of the Belgian government, a new provision was added to the constitution (Article III-117) to insist that all EU policies must “take into account the guarantee of adequate social protection, the fight against social exclusion”. Taken alongside the Charter of Fundamental Rights, this clause does push the EU further in the direction of “social Europe”. But, at this stage, it barely matters. The French and Dutch campaigns will not be decided by the fine print.

Maquis against the acquis?

The fact that the referendum campaigns in both countries have focused so much on the European Union as a whole underlines the dangers of the current debate. A “double no” would not just signify rejection of the constitution itself. It might also start a backlash against elements of European integration that were already in place before the constitutional debate got going— in particular EU enlargement and the single market. The federalists' gamble would then have gone spectacularly wrong.

Of course, nothing is decided yet. In the last days before the votes, the French opinion polls were still close and the Dutch polls—although suggesting a no—varied wildly. Even if the final result is a “double no”, the details and aftermath would matter hugely. A close result in France might just open the possibility of a rerun, though the government has ruled this out; a decisive outcome would close that option off. Much too will depend on the tone taken by Jacques Chirac in the aftermath of a referendum defeat. In Brussels, the hope is that France's president might adopt a humble and constructive approach; but the fear (and semi-expectation) is that he would instead go on the offensive against an “Anglo-Saxon” and “ultra-liberal” domination of the EU. That would ensure that France's internal conflict was exported to the heart of the European Union itself.

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Housing market

Gordon Brown's house sale

May 26th 2005
From The Economist print edition

The government wants to help the market provide cheap homes for poorer people. It's a risky scheme for all concerned

IT SOUNDS the stuff of which triumphant third terms are made. Gordon Brown, the chancellor of the exchequer, wants to increase the number of homeowners by a million over the next five years, taking the home-ownership rate towards 75%. To back this up, the government will assist people who cannot afford to buy homes on their own.

There are three main reasons for the initiative. First, the government believes it is socially undesirable to have estates dominated by publicly owned housing. Second, it wants not only to help poorer people through income support but also to give them an opportunity to build up wealth, of which housing equity is a crucial element. Third, Mr Brown wants to demonstrate that the government can provide a helping hand to those who want to better themselves.

The government likes to set itself challenging targets, and this is certainly one such. Since 1997, when Labour won power, the home-ownership rate has risen rather sluggishly, from 68% to 71%. Raising it to 75% would require roughly 1.5m more households to become owner-occupiers over the next five years.

Adding to the difficulties, high house prices, together with the rise in interest rates in the past 18 months, have driven many first-time buyers out of the housing market. Usually, they account for around 45% of loans for house purchase, but for the past two years their share has been sharply lower, at 29%.

So Mr Brown has stepped in to lend a hand. The chancellor says that the government will help 100,000 extra households into home ownership over the next five years through shared ownership. His lever is money—not just public funds but also the resources of mortgage lenders.

Under the scheme, poorer people will no longer need to stump up the full cost of a home. Instead they will acquire a share in it, worth between 50% and 75%. For 80,000 of the purchases, the government (via housing associations) will finance the remaining cost. For 20,000 of the deals, the mortgage lenders will take a share: they and government will each put in an equity stake of 12.5%.

The new home-owners will thus get a public subsidy since they will pay either no or low rent on 25% of the housing equity for the first five years. The lenders, for their part, will help by making a lower commercial return than on a normal loan.

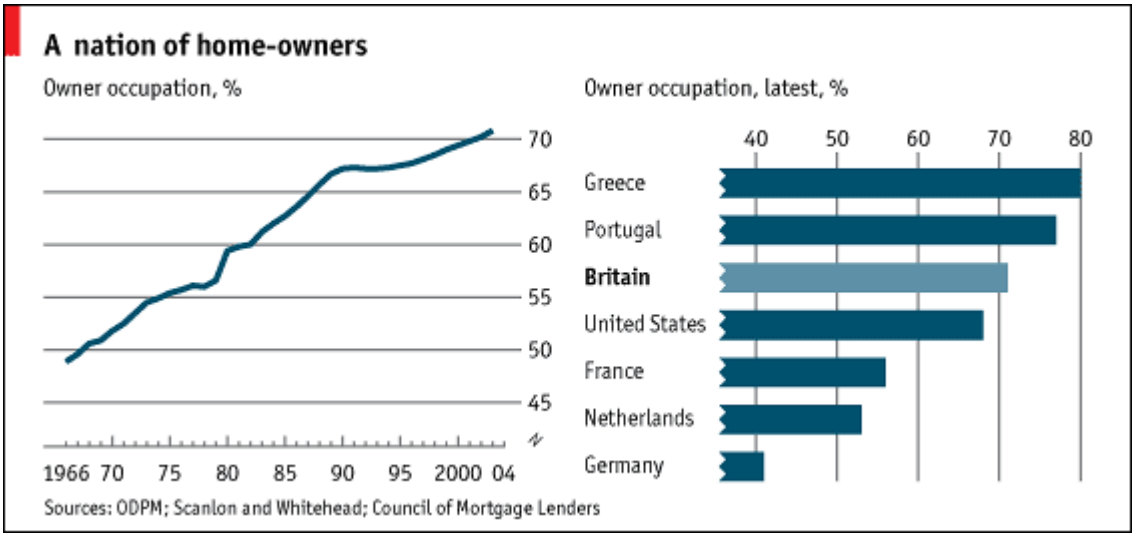
The government thinks that the scheme will push up home ownership. The mortgage lenders reckon that it will help restore confidence to a fragile market in which first-time buyers are thin on the ground. But there are risks for both parties. Both the government and the mortgage lenders are tying up scarce capital and putting it at risk. The public investment necessary will be more than £1 billion ($1.83 billion) over five years. If house prices fall, the government will lose money on its equity stake when households covered by the scheme have to sell. The banks have some protection, in that the government's stake is first in line, but they will lose if house prices decline by more than 12.5%.

There are risks for the potential new home-owners, too. While the equity cushion the government and the mortgage lenders are providing will protect most of them from actual equity losses, some may find it hard to service their mortgages. There is a danger that the subsidy may tempt people to borrow more than they can afford. This bothers David Miles of Morgan Stanley, author of a report to the Treasury on housing finance, who points out that “the way to maximise the subsidy is to stretch yourself to the limit.”

It isn't the best of times to launch such an initiative. Last year the International Monetary Fund estimated

that house prices were about a third above their long-run sustainable level. Over the past few months, prices have been broadly flat and many economists think that they will fall over the next couple of years. The scheme is thus being launched at the very time that the risk of housing-equity losses is especially high.

Some economists question the wisdom of setting targets for owner-occupation, arguing that the rate should emerge as a result of individuals' own choices. An international comparison suggests that there is no link between high ownership rates and greater prosperity (see chart). Arguably, Britain is short not of privately-owned homes but of privately-rented ones, which are better for easing the labour mobility essential to a smooth-working economy.



The government's scheme may also have a perverse outcome. By increasing demand for cheap housing, it may hold up prices at the bottom end of the market—which will presumably make houses less, rather than more, accessible to poorer people. But then perhaps the welfare of first-time buyers is not the government's only concern: maybe behind the hype for this scheme lies a desire to prop up the housing market, for fear of what may happen to the whole economy if it crashes.

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Home education

When Mum is Miss

May 26th 2005
From The Economist print edition

Choosier parents and better technology equal more home education

EDUCATION is compulsory in Britain, whether at school “or otherwise”; and “otherwise” is becoming more popular. In 1999, only 12,000 children were listed as being home-schooled. Now that figure is 20,000, according to Mike Fortune-Wood, an educational researcher. But he thinks that, as most home-taught children never go near a school and are therefore invisible to officialdom, the total is probably nearer 50,000.

As usual, Britain lies between Europe and America. In Germany, home teaching is illegal. In America, it's huge: over 1m children are home-schooled, mainly by religious parents. These are a small minority among British home-educators, who consist mainly of two types: hippyish middle-class parents who dislike schools on principle, and those whose children are unhappy at school.

The growth is overwhelmingly in this second category, says Roland Meighan, a home-education expert and publisher. One reason is that technology has made home-education easier. The internet allows parents to know as much as teachers. It is also a way of organising get-togethers, sharing tips and outwitting official hassles. That supplements events such as the annual home-education festival last week, where 1,600 parents and children enjoyed Egyptian dancing and labyrinth-building on a muddy hillside in Devon.

But a bigger reason for the growth is changing attitudes. Centralisation, government targets and a focus on exams have made state schools less customer-friendly and more boring. Classes are still based strictly on age groups, which is hard for children who differ sharply from the average. Mr Fortune-Wood notes that the National Health Service is now far more accommodating of patients' wishes about timing, venue and treatment. “It's happened in health. Why can't it happen in education?” he asks.

Perhaps because other businesses tend to make more effort to satisfy individual needs, parents are getting increasingly picky. In the past, if their child was bullied, not coping or bored, they tended to put up with it. Now they complain, and if that doesn't work they vote with their (children's) feet. Some educationalists worry that home-schooling may hurt children's psychological and educational development. Home educators cite statistics* showing that it helps both educational attainment and the course of grown-up life.

Labour's latest big idea in education is “personalisation”, which is intended to allow much more flexible timing and choice of subjects. In theory, that might stem the drift to home-schooling. Many home-educators would like to be able to use school facilities occasionally—in science lessons, say, or to sit exams. But for now, schools, and the officials who regulate them, like the near-monopoly created by the rule of “all or nothing”.

*“Home-based education in the UK”, Mike Fortune-Wood. Educational Heretics Press, 2005, £10

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Legal costs

Bills and briefs

May 26th 2005
From The Economist print edition

Why the price of justice is going up

LAST July, Nicholas Stadlen rose to defend the Bank of England against the charge that it had failed properly to regulate BCCI, a now-defunct bank. Mr Stadlen, who had waited patiently while the prosecution ploughed through what was reckoned to be the longest opening statement in English legal history, hinted at the performance to come by declaring: “after six months, the empire strikes back”. He finally sat down this week, having comfortably outdone his opponent. It is a record, though the lack of restraint is not novel. As Charles Dickens noted in 1853, “the one great principle of the English law is, to make business for itself.”

Law is a good business partly for the same reason medicine is a good business: the practitioner knows more than the client. But the English legal system has other pecuniary advantages. Lawyers tend to be paid by the hour, so more toil means more money. Crucially, the winning side can usually force the loser to pay their legal costs. The more expensive litigation becomes, the greater the imperative to win and stick the other side with the bill, which encourages higher spending.

Another kink was added to these already perverse incentives in the late 1990s. In order to reduce spending on legal aid for poor litigants and open the courts to people of middling means, the government allowed lawyers to accept clients on a conditional basis. If they win a case, they now claim not a cut of the damages (as American lawyers do), but a success fee from the losing side, measured as an additional “uplift” of up to 100% over their costs. The innovation encourages them to rack up still higher charges.

Litigants are mostly untroubled by the rising costs of justice. Victims of injury tend to protect themselves against the threat of losing by taking out “after the event” legal insurance, the cost of which can also be transferred to the other side if they win. Before conditional fees, they did not understand what their lawyers were up to; now they simply do not care.

As a result, costs have become so inflated that they are now a common subject of litigation in their own right. This week, the House of Lords heard arguments about a £594,000 ($1.1m) bill presented by lawyers representing Naomi Campbell, a model, in a long-running privacy dispute. The original damages awarded to Miss Campbell were just £3,500.

Even lawyers agree that costs have gone up since conditional fees emerged, although they reckon new procedures introduced at the same time are partly to blame. They must now assemble their case earlier, which makes for more expense as well as greater efficiency. A study of road accident cases found that the cost of bringing a case to court rose by 15% between 2000 and 2002. The cost of cases that were settled sooner rose by almost half.

Adrian Zuckerman of Oxford University reckons that costs cannot be brought down simply by obliging lawyers to explain their charges—the method that has mostly been tried so far. He prefers the German system, under which lawyers are paid a fixed litigation fee. Pressure from judges and insurance companies means that the English legal system is, in fact, moving slowly in this direction. Success fees in many cases have now been standardised; in routine road accident cases, costs are fixed, too.

This does not please personal-injury lawyers, who argue that fixed costs are likely to lag behind the pace of legal inflation (that is precisely the point, of course). They contend, too, that limits on spending will benefit defendants. As Doug Christie, a partner at Thompsons Solicitors, puts it: “It's a lot more expensive to build a house than to knock it down.” That is probably true. But justice has a price, which cannot be transferred out of existence. In the end, somebody must pay.

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Cornish tourism

Change in the air

May 26th 2005
From The Economist print edition

Cornwall is poor, but cheap air fares could make it rich

PA

Duchess of all she surveys

IT'S all glamour when you're a royal, as the Duchess of Cornwall no doubt mused on her first official visit to the county whose name she has borne since she married the heir to the British throne in April this year. On May 20th she accompanied her husband to open a new arrivals lounge at a small airport.

For Cornwall at least, such developments are exciting. Cornwall is poor. Its GDP per head is only around half the national average and one-third that of Britain's richest county, Berkshire. Cornwall is one of only four areas in the UK which qualify for poverty-related grants from the European Union.

Cornwall has only ever known four industries: mining (for tin and copper), agriculture, fishing and tourism. The first is dead, so much so that some old Cornish mine shafts are applying to become a UNESCO World Heritage Site (along with the pyramids and Angkor Wat). Agriculture and fishing are being squeezed by the EU, and only tourism is thriving. It is now reckoned to account for a quarter of Cornwall's output.

Tourist numbers rose by half in the decade to 2003, and the amount they spent almost doubled. The visitors' social profile changed too. In 1993 fewer than 40% of them had white-collar jobs; ten years later more than 80% had “professional or managerial” occupations, or were retired.

For years villages such as Polzeath and Rock, near the Camel estuary, have been popular family-holiday destinations. St Ives was taken up in the 1940s by artists such as Barbara Hepworth and Ben Nicholson. Newquay has more recently been adopted by surfers and clubbers, and the calmer southern coast is becoming popular among the well-heeled. Olga Polizzi, the daughter of Lord Forte, who made lots of money out of bad hotels, has turned the Tresanton at St Mawes into an exceedingly good one. Others have followed.

A couple of big attractions that opened in 2001 have pulled the crowds in to the south coast. The Lost Gardens of Heligan, south-west of St Austell, is a tropical Victorian garden that took ten years to restore. The Eden Project, less than ten miles away, is an ambitious attempt to propagate the world's flora and fauna inside a series of enormous plastic bubbles set in a worn-out clay pit. In four years it has become the county's most popular attraction by far. Sometimes the footpaths winding down to the bubbles look like London Bridge in the rush hour.

Transport has been a constraint. Over 90% of tourists arrive by car, just as they did 15 years ago, and the only motorway that gestures towards Cornwall stops 50 miles away, in Exeter.

But now low-cost airlines are coming to Cornwall's rescue. In 2002 Ryanair began flights from Stansted airport to Newquay, the county's only sizeable commercial airfield. In April this year a local airline, Air Southwest, launched low-cost flights to Leeds and Manchester in the north of England. And on June 10th, bmibaby, a low-cost carrier, will start flying from Newquay to Birmingham and Durham.

Newquay airport is therefore crucial to Cornwall; and its future is uncertain. It shares facilities with the Royal Air Force's St Mawgan airbase, which the defence ministry has said will be mothballed in 2007; but if the RAF walks away entirely, the bills will go up. The airport has just received a £1.25m ($2.3m) grant

from the EU to increase its capacity from 300,000 passengers a year to 400,000. Building is due to start this summer.

Both Air Southwest and bmibaby are hoping not just to reach new geographical markets but also to create new types of business—for example, short breaks in spring and autumn, periods outside Cornwall's peak months of July and August. Global warming is only fairly helpful: although Cornwall has been getting warmer, it has also been getting wetter.

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The BBC

The kindest cut

May 26th 2005
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Reuters

Strikes at the BBC are, in a way, rather handy for the new director-general

Get article background

IF THE BBC is to survive and prosper as a public-service broadcaster in the next decade and beyond, said Mark Thompson, its director-general, last December, it has to give people “more quality, more ambition, more depth than they get from any other broadcaster”. It may seem odd, but the first step along the way is lots of redundancies. Over the next three years 3,780 jobs will go, out of 19,579 in public-service broadcasting. This week nearly two-fifths of its staff went on strike for a day. More strikes are likely to follow next week.

Last year research from the media regulator, Ofcom, showed that viewers thought the BBC was making too little original and imaginative programming to fulfil its role as a public-service broadcaster. Mr Thompson vowed to lift standards and stop showing so many reality programmes and home makeover shows. The BBC is to concentrate on original British drama, comedy and music, even if that means that its ratings fall. As indeed they are: in April BBC1 and BBC2 together attracted 33% of viewers, down from 37% three years ago.

Finding the money to lift standards, however, is difficult. Mr Thompson's predecessor, Greg Dyke, spent a lot of money putting freelancers on staff. When Mr Thompson took over, the BBC was spending so much that it was headed towards reaching the end of its current Charter period, December 2006, in deficit.

At the same time, the BBC has a pressing need to look efficient, for the government is soon to decide the amount of licence-fee money it will get for the next ten years. Mr Thompson believes that unless the BBC finds still more money to invest in innovation, it will fall further behind multi-channel television.

His solution is to make heavy cuts in some bits of the BBC and redirect the money to where it is more urgently needed. Just under half of the job cuts and savings of £139m will come from the BBC's large back office of human resources, lawyers and accountants. Programme-making will be cut, too; but overall, the BBC is not doing much more than paring back the 3,000 or so jobs its former boss added. By 2008 there will be £355m available for new investment each year.

The strikes are more likely to help Mr Thompson than to hinder him. An angry workforce is the best evidence he could have to persuade the government that the BBC is no longer spending freely at licence-fee payers' expense. And since the strikes have been carefully timed to disrupt coverage of the Chelsea

Flower Show rather than the FA Cup Final, not that many viewers will be annoyed.

Independent television production companies, meanwhile, are delighted. The BBC is to commission up to half of its programming from indies in future. That opportunity, and a change in the law which allows indies to retain rights to their programming, has boosted the sector. Independents are now trying to poach the BBC's producers. There should be plenty on the market.

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Banking

Tight-fisted

May 26th 2005
From The Economist print edition

Government threats loosen the banks' grip on their customers' money

What's wrong with Britain?
Retail payment clearing times

Belgium	Same day
Britain	**Three days**
Denmark	Next day
Germany	One day
Greece	Same day
Finland	Same day
France	Same day or up to four days depending on location
Netherlands	Same day (morning), next day (evening)
Spain	Same day

Source: Office of Fair Trading

LUDDITES often complain that things move too fast in the electronic age. One notable exception is electronic money, at least in Britain, where moving virtual cash between banks can take up to three days. That has long annoyed the government, consumer associations and small businesses. So there was much rejoicing this week when the government strong-armed the retail banks to agree to upgrade their computer systems to allow internet, telephone and standing order payments to reach their destination in a single day.

Next-day payments are common in much of continental Europe (see table), and they already exist in Britain, too. Debit-card payments happen instantly. A separate computer system handles big payments between banks and large companies. It is only consumers and small firms that have to wait for their money transfers to go through. Speeding up the system could boost economic activity by over £1 billion over the next ten years, according to the Office of Fair Trading, Britain's competition regulator.

If the benefits are so big, why are Britons stuck with such a dawdling system? Because of the nature of the banking industry, which means that efficiency does not always improve things.

Thanks to what economists call “network effects”, the bigger payment systems are, the better they work. Bank networks are useful only if they allow most customers to send money to most other customers. Small networks that only serve part of the market are nearly useless. That has led to a single payment infrastructure that is owned and run jointly by the big retail banks. Consumers benefit because they can be sure that the network reaches anybody they may want to pay, but the trade-off is that there is no competition to develop a better service. Experience in other countries suggests that official prodding is usually needed to improve things.

Another reason is that the current, slow system suits the big banks quite well: the OFT reckons that, in 2003, they earned £30m in interest on money awaiting transfer. Two big banks—HSBC and Lloyds TSB—have now ended that practice. But the industry reckons that the new network will cost it at least £48m, without bringing it any benefit. Pricing access to the faster network would allow the banks to recoup their investment, but the law prevents the banks from colluding to set prices.

So it is only under the threat of legislative action that the banks have agreed to build the new system. But if the wheels of British banking grind slowly, the machinery of government is even more ponderous. Reform was first suggested in a report commissioned by the Treasury that published its findings in 2000. The government then dithered for three years before passing the buck to the OFT, which has given the banks six months to come up with a plan for the new system—and then two more years to build it.

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Identity cards

The card is coming

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ID cards will be expensive, but the government hopes nobody will notice

KEEN to show that the reduction in its parliamentary majority hasn't scared it off controversial legislation, the government this week brought back a bill to introduce identity cards. It is a calculated gamble. The Liberal Democrats have long opposed the bill and the Tories, who in the last parliament variously voted in favour and abstained, will join them. The shadow home secretary, David Davis, is a frontrunner for the Tory leadership and wants to impress the party's liberal wing.

However, despite some disquiet on the government benches about the implications for civil liberties, the chances of the rebels mustering the 34 votes needed to kill the bill are remote. Last time round, only 19 Labour MPs voted against, four of whom have since left the Commons.

Charles Clarke, the home secretary, has signalled that he is ready to make minor concessions—such as additional protections to prevent data from being abused—to buy off trouble. Moreover, the government is on firmer ground than before. ID cards figured prominently in Labour's manifesto and are popular with voters. A MORI poll conducted just before the election found that 80% supported the cards. Assuming the bill gets through the Commons, the Lords are unlikely to break with the convention that they should not muck about too much with legislation that has been foreshadowed as a manifesto commitment.

Under the terms of the bill, which is intended to be permissive rather than prescriptive, the government will be allowed to set up a national ID register that will hold information about people's biometric details, such as fingerprint records and iris scans. It will also have powers to issue the cards themselves.

The cards are to be eased in gently. At first, the scheme will be voluntary for all except newly-arrived foreign nationals, who have to register by 2008. Also from 2008, anyone applying for a passport will pay £93 and receive a biometric passport and ID card. Presumably the government assumes they won't notice that they are being charged more than double the current cost of a passport to cover the cost of the ID card. The bill also allows the government to make cards compulsory sometime—probably when around 80% of people have them.

Critics, such as Mr Davis, contend that the government has failed to give good reasons for setting up such a complex scheme that will cost more than £500m a year to run and which will change the relationship between the citizen and the state.

They have a point. When ID cards were first mooted, they were to combat terrorism. Then they were to help curb illegal immigration. Now they are aimed at “the growing threat” of identity theft and fraud. No doubt they will be useful in all sorts of little ways, but the government gives the impression of hunting for a problem for which it has already found the solution.

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Tory leadership rules

Chastising the faithful

May 26th 2005
From The Economist print edition

Michael Howard's proposals to fix the Tory party

Get article background

WHEN Michael Howard announced that he would stand down as leader of the Conservative Party, he added that he would change the rules for the election of his successor before he went. He didn't have to spell out why.

Under the current rules, party activists, who one senior Conservative staffer describes as “a bigoted group of old people”, have the casting vote over who gets the top job. Tory MPs fear that unless the rules are changed, they might see a repeat of the 2001 leadership election, when the activists chose straight-backed, useless, Eurosceptic Iain Duncan Smith over affable, competent, Europhile Ken Clarke, saddling Tory MPs with a leader who only a third of them supported.

But when Mr Howard put the proposals, drawn up by Francis Maude, the new party chairman, and Raymond Monbiot, who chairs the convention of chairmen of Conservative local associations and election agents, to Tory MPs early this week, he received a different response. MPs who went to the meeting said it was unusually bad-tempered.

This is odd, given that Mr Howard's main proposal was to allow his audience to choose their own leader. Under the new rules, any candidate who gets the support of 50% of the parliamentary party would become leader. If there was no clear winner, candidates supported by at least 10% of MPs would be put before the convention for a non-binding vote, before the MPs made the final choice. What happened?

First, Tory MPs were indulging in a little collective anger management. During the election, they kept their reservations about Mr Howard's leadership quiet. But they thought it was wrong to prevent Howard Flight from standing for the Tory party after he appeared to advocate a secret tax-cutting agenda. Many also disliked the tone of the campaign and thought Mr Howard featured too prominently in it. Once Mr Howard had said he would go they had nothing to lose by letting him know how they felt.

Second, Tory MPs were under the impression that they were going to be subjected to meddling performance reviews and forced to sign a contract promising not to do anything that might embarrass the party—the political equivalent of an anti-social behaviour order. Mr Howard insists this will not happen. Even so, Tory MPs are now muttering about replacing him as soon as possible. To silence them, Mr Howard issued a statement saying he will stick to his original timetable. But that tactic often has the opposite effect.

The other proposed changes have been more welcome. Mr Maude wants to merge about 200 local associations that have 100 members or less and replace them with fewer, bigger units for fighting elections. This is seen as one way to gain a foothold in cities other than London, where once again the Tories performed dismally in the election. He also wants to abolish central party membership, so that all members join their local association.

But the big change—over who chooses the leader—would see power move in the other direction. “Returning it to MPs is hard to spin as modernising,” says one member of the shadow cabinet. The proposal's main virtue is that it is undemocratic, which also makes it hard to support. And anyway, Conservative MPs, who chose John Major and William Hague, don't have a record of picking winners.

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Bagehot

Tony Blair's battle for Europe

May 26th 2005
From The Economist print edition

The prime minister is spoiling for a fight over Europe. But not at home

WHEN Tony Blair turns on his television to get the results of the French referendum on the European constitution on the night of May 29th, it will be with mixed feelings.

Part of him would like a yes vote. The prime minister really does think the constitution is in Britain's interests; he is deeply worried by the sour mood of protectionism and hostility to global capitalism—an alliance between the statist old left and the nationalist new right—that the no campaign has exploited and fostered in France; and in his braver moments, he believes that he could win his own referendum next year and thus achieve one of the goals he set himself when he came to power in 1997—to reconcile Britain to Europe once and for all.

The other part of Mr Blair (almost certainly the larger part) is praying for a French or a Dutch no (or preferably both) to kill the constitution off. The referendum which he conceded at a moment of political weakness when it must have seemed a long way off now threatens to stop him from choosing the time and circumstances for a dignified departure. And Mr Blair would hardly be human if he did not relish the prospect of President Jacques Chirac's humiliation. To see an enemy brought low while simultaneously gaining a new lease on one's own political life would be sweet indeed.

Mr Blair's ambivalence reflects the change in his feelings towards Europe during his eight years as prime minister. In 1997, his starry-eyed enthusiasm was tempered only by his desire not to provoke the largely anti-European press. For Labour's modernisers, Europe held a special place. Having advocated withdrawal from the EEC, as it then was, in 1983, the Labour movement reversed its position in the late 1980s. Horrified by the consequences of Thatcherite economics, first the unions and then the party turned to the social democratic Europe of Jacques Delors as a countervailing force. It was the first signal that Labour was re-engaging with the world and rejecting Bennite socialism in one country.

The Tories' destructive divisions over Europe in the 1990s were another reason for Labour to embrace it. When Mr Blair became leader in 1994 his promise to put Britain firmly “at the heart of Europe” was meant to contrast with the Tories' currency defeat, their opt-out from the social chapter that gave workers new rights and John Major's futile “empty chair” protest when Europe refused to buy Britain's BSE-infected beef.

Unfortunately, both at home and abroad, the reality of Europe has been a great deal more trying than the young and hopeful Mr Blair could possibly have imagined. The withering of his fervour for the euro is one example. For years, Mr Blair saw joining the euro as a way to increase British influence in Europe and was infuriated by Gordon Brown's insistence that to do so would put at risk Britain's enviable economic stability and the government's ambitious spending plans. But as growth slipped and unemployment rose in the eurozone, Mr Blair ran out of arguments against his chancellor. A few weeks ago, he admitted that joining the euro was no longer even on Britain's agenda.

After Iraq, any lingering ardour finally dissipated. Rightly or wrongly, Mr Blair believes that President Chirac was responsible for killing off any chance of gaining a second UN resolution authorising the use of force; and he took it personally. He became convinced that the French president was bent on destroying someone he had come to resent as a rival within the EU.

Paradoxically, Mr Blair's disillusion has coincided with a period when quite a lot has been going Britain's way in Europe. While progress on implementing the liberalising Lisbon agenda has been slow and stumbling, its analysis of what ails Europe could have been written in London. The enlargement of the EU to the east has been a long-term British objective, partly because it undermines the model of tight

integration beloved of the French and the Germans. The rejection last year of Guy Verhofstadt, the Belgian prime minister, as president of the European Commission (the preferred candidate of Mr Chirac) in favour of José Manuel Barroso, an economic liberal and keen Atlanticist, was a success for Mr Blair. The constitution itself, for all its flaws and troubling ambiguities, is seen within the commission as a victory for British negotiators. The no campaign in France labels it the “constitution Britannique”.

No but, yes but

Mr Blair is now passionate about Europe in quite a different way from eight years ago. When he talks about it, his eyes blaze. He believes that clear battlelines have been drawn between those who want an outward-looking, free-trading, economically liberal EU that is a strategic partner of America, and those who see it as a counterweight to American power and a bulwark against the unrestrained global competition that threatens employment and generous welfare systems. He looks forward to July, when Britain takes over the EU presidency, and he can use his position to fight what he sees as a very good fight.

Mr Blair's enthusiasm for going into battle in Europe contrasts sharply with his reluctance to engage with the issue at home. While he claims he can win a referendum on the constitution, he knows that victory will be far from certain. Embarrassingly for him, it might be likelier if he were to remove himself from the campaign. The British Election Study, a huge survey of public opinion, found that 41% of Labour supporters would back the constitution if asked a neutral question about the treaty. However, when asked whether they would back it if Mr Blair called for a yes vote, support fell to 32%. In practice, Mr Blair can remove himself from the campaign only by ceasing to be prime minister.

Mr Blair is spoiling for a fight with everything the French no campaign represents. But if he is to have it, the noes must first win on Sunday.

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The textile industry

The great stitch-up

May 26th 2005 | BRUSSELS, DELHI, HONG KONG, PARIS AND WASHINGTON, DC
From The Economist print edition

EPA

Restricting Chinese textile exports will only rebound on America and Europe

IT TAKES a lot of chutzpah to plead lack of preparation when a development has been ten years in the making. That, however, is precisely what western clothing manufacturers are doing. This January saw the end of the decade-long phase-out of a quota system that had protected the world's biggest textile markets—America and the European Union (EU)—from cheap imports, largely from Asia, for 40 years.

Predictably, exports from Asia, particularly China, have soared. In the first quarter of 2005, for example, the number of Chinese cotton trousers imported by America rose by 1,573%, cotton T-shirts and blouses were up by 1,277% and cotton underwear by 318%, according to America's Commerce Department. Total Chinese textile and clothing exports to America were over 60% higher in the first quarter of this year than in the same period in 2004.

In Europe, imports of Chinese pullovers more than quintupled, as did imports of men's trousers. Imports of T-shirts and blouses nearly doubled as prices fell by as much as one-quarter. “We simply don't understand how they can produce at these prices,” says Thierry Noblot of the Union des Industries Textiles, the French textile industry's main lobby group.

Such howls of anguish have had their effect on both sides of the Atlantic. Earlier this month, America said it would impose “safeguard” quotas on seven categories of Chinese textiles, including cotton underwear, shirts and trousers. These quotas, which restrict their year-on-year growth to 7.5%, can be renewed annually until 2008 and could be expanded to encompass other goods. Textile firms are also vigorously backing proposed legislation that would slap a tax on Chinese imports unless China revalues its currency, the yuan.

Them ol' cotton fields back home

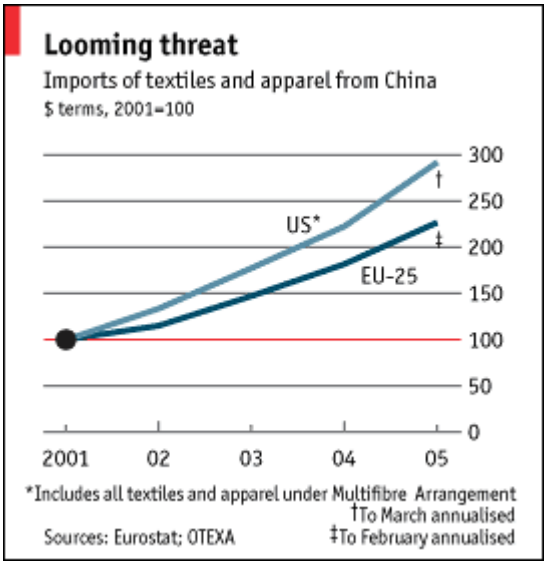
The EU's trade commissioner, Peter Mandelson, who was this week negotiating fruitlessly with Chinese officials, has been more circumspect—so far. Although the European textile and clothing industry has been shrinking, the EU remains the world's leading exporter of textiles and the second-largest exporter of

clothing.

Mr Mandelson says he opposes quotas, but has conceded that there needs to be a more gradual transition to the new regime. Last month he launched an investigation into nine categories of Chinese products, and is now discussing emergency limits on imports of T-shirts and flax yarn. During this week's talks between Mr Mandelson and Gao Hucheng, China's textile negotiator, the EU gave China until May 31st to convince it that it will scale back exports significantly. If China fails to be convincing by the end of this month, the European Commission will begin the process of reintroducing import quotas for those two categories of Chinese products.

To forestall further retaliation, on May 20th China said that it would voluntarily raise export taxes on 74 clothing products by up to 400% from the start of June. This was an astute move. China has already used the new bargaining power it offers by threatening to withdraw the new taxes from any items subjected to quotas. The economic cost should be minimal, since it covers barely one-fifth of China's apparel exports. Only 3% of the mainland's total exports will be hit, reckons Ma Jun, an analyst at Deutsche Bank in Hong Kong. Nor will America's revived quotas dent China's growth much, he says.

Joshua Lu at Morgan Stanley points out that, since China's exports had been restricted for so long, they are still small in absolute terms, and there is relatively little business to lose from renewed protectionism. Thus in T-shirts, trousers and underwear, China had just a 1-2% market share in America before January 1st. Although it is now 7-15%, that is still not very much.



The effect on mainland China's upstream textile industry will be more severe. The tariffs are small in absolute terms, with an average rise from 0.2 to 1 yuan (2.5 to 12.5 American cents) per item. But the new level represents about 6% of the overall cost of a piece of clothing—enough to massacre already thin operating margins. These range from 2% to 10%, with fabric producers, such as Fountain Set, and end-of-the-line distributors, such as Li & Fung and VF Asia, tending to be more profitable than contract garment-makers.

Still, Vincent Cheung of VF Asia says that the new tax will affect future shipments. “We can't raise our prices this year because they are set. In the future we have to charge our buyers more but it is not easy—we may have to go halfway and cut cost.” Bruce Rockowitz, president of Li & Fung, says that many textile factories in southern China “built up tremendous capacity in preparation for the lifting of quotas and that now has to be run down.”

The added pressure on profits may spur consolidation in what is still a fragmented sector with a large number of single-workshop manufacturers. So it could result before long in a more competitive industry with greater economies of scale. Meanwhile, most of the bigger firms are protected by two factors. The first is geographical diversification—the distortions of the old quota system forced Chinese-owned textile companies to finish clothes in other Asian countries to avoid the “made in China” tag. Luen Thai, for example, has factories in four foreign countries, accounting for three-quarters of its production. Second, the big Chinese manufacturers do not compete on price alone—their rivals elsewhere in Asia are cheaper—but on quality, scale, reliability, speed and sophistication that rivals struggle to match.

The quotas and tariffs will not save the American textile industry or restore the 1m jobs it has lost since the 1980s. “China isn't their problem,” says Laura Jones of the US Association of Importers of Textiles and Apparel. “It's the whole rest of the world.”

In Europe, the textile lobby's Mr Noblot thinks that the Chinese tariff rises will hardly alter his members' prospects. The price of a Chinese T-shirt for European importers will increase from €2 to €2.10 ($2.50-2.60) according to Mr Noblot. For shirts the difference will be one cent.

At most, the restrictions will slow Chinese export growth to the West. But any slack is likely to be taken up by other poor countries. The “safeguard” measures—a product of the tortuous negotiations on China's admission to the World Trade Organisation—cannot be used against other countries. One of the protectionist arguments used last year for prolonging quotas was that their abolition would wipe out export-based industries in poor countries that allegedly relied on quota protection from Chinese

competition.

Spinning a yarn

Bangladesh was an often-cited example. Clothing makes up over two-thirds of its exports. It relies on imported fabric. Yet its clothing exports to America rose by 21% in the first quarter of the new regime. China's rivals continue to complain about unfair methods—such as an undervalued currency and hidden subsidies. But so far they have mostly withstood the deluge.

The true losers from any return of quotas will be American and European consumers and the retailers that cater to them. It will mean higher prices now, and hinder lower future prices by slowing the emergence of Chinese “supply-chain cities”, as UBS, an investment bank, calls them, that will handle the entire process of making a piece of clothing from sheep to shelf.

Chinese textile factories have tended to specialise in one process and finish goods overseas to avoid quotas. But unlike its main rivals, China has the advantage of huge domestic fibre and fabric production. Without quotas, it could build vertically integrated firms, lowering costs, raising quality and cutting time to market—great for western customers. That will surely happen, sooner or later. China's emergence as the ultimate one-stop textiles shop can be delayed—but not stopped.

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Russian steel

Looking abroad

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Russia's biggest steel company is planning to float itself in the West

IT IS a murky world, that of Russian steel, but light is coming in. This began last October when Mechel, number five in the Russian industry, raised $335m by selling 11.5% of its shares through an initial public offering (IPO) on Wall Street. Now Evraz, Russia's biggest steel firm, headed by Alexander Abramov, a sometime scientist, is heading for London. It plans an IPO there to raise $395m-495m for 8.3% of its equity.

London already lists half a dozen Russian shares, mostly in oil and gas firms such as Gazprom, but joined this month by Pyaterochka, a retailer. But Russian steel is something else again. Even now, four-fifths of Mechel is held by two men. Its New York prospectus had to admit it risked “significant” losses if Russia's taxmen challenged its transfer prices. Within weeks it was preparing a bid—not discussed in its prospectus—for the Russian government's 17.8% holding in Magnitogorsk, another big steel group, in which Mechel already held 17.1%. Officials from the Ministry of the Interior descended on Mechel's offices. It cried foul, then did a hasty U-turn and, rather than bid, sold its stake to the government-favoured and ultimately successful bidders for the state holding—Magnitogorsk's management.

Two years earlier Mechel and Evraz had been battling for control of a bankrupt iron-ore plant; a battle that became literally such when police with tear-gas clashed with pro-Mechel workers at the plant. Mechel hinted at hanky-panky. Nothing to do with us, said Evraz, and hit back with charges that Mechel—the plant's main owner as well as creditor—had been playing games with Evraz's ore supplies.

Evraz's launch too is raising some eyebrows. Its draft offer document, now being shown around by Morgan Stanley, reveals an American court case. The plaintiffs claim that 11 defendants, Evraz being one, by dubious means deprived them of their majority stake in a big iron-ore complex now part of the Evraz empire. Evraz says it bought the shares (later, from new holders) in the normal way of business.

The document lists Mr Abramov as owning 65%, and his deputy 31%, of the firm that ultimately holds Evraz's assets. Happy men, given Evraz's turnover of $5.9 billion last year, and profit of $1.1 billion. But the two men had other partners at the start in 1992; are they now quite as much in sole control as they look? Yes, says Evraz.

Yet—cooling steel prices apart—the real risk for western investors in Russian steel is not the oddities of some bosses. It is those, as Mechel implied and other companies have painfully experienced, of Russia's taxmen, ready to pounce, arbitrarily or for political purposes, but not necessarily without arguable grounds.

So it is no surprise that Russia's steelmen see the outside world as a kinder place. They are both selling shares there and looking for assets. The share sales by Mechel and Evraz are unlikely to be the last. Novolipetsk, Russia's number four, has just got permission to list abroad; Magnitogorsk may do so later. The asset-buying has gone further. Two years ago, Corus, an Anglo-Dutch firm born from the merger of British Steel and Hoogovens, found itself, uneasily, with a new big shareholder, Alisher Usmanov, another of the steel oligarchs. He later sold out. But Severstal, Russia's number three, last year bought Rouge, an American steelmaker, and is among the suitors for Canada's bankrupt Stelco.

Evraz itself has just bought a manganese mine in Georgia, and is bidding for the Czech Republic's big, bust Vitkovice steelworks. Mastercroft, the firm that formally owns most of Evraz's steel and ore assets, has until now been registered in Cyprus. And the Evraz into which Mastercroft is being merged is not exactly the Russian one; it is an arm of the group newly set up and registered in Luxembourg. It is this arm that will issue the shares in London.

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Railways in the new EU

Huffing and puffing

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Change is coming to central Europe's railways, but slowly

INEXORABLY, western Europe's railways have seen their share of the freight market shrink. That has happened also in the new countries of the European Union farther east. Yet rail there still carries over 30% of goods. So the launch of a tender next week to privatise Slovakia's rail-freight company, ZSSK Cargo, is sparking interest from some big names in the business, not least Railion, the freight arm of Germany's Deutsche Bahn.

The railways of what was once the Soviet block have undergone wrenching changes since then. Formerly monolithic, vertically-integrated systems designed to shift bulk commodities (and car-less people), they have seen their share of traffic drop by half since 1990, as heavy industry collapsed and car ownership increased. Bloated workforces have been slashed, and infrastructure ownership has been separated from train operations to allow competition. Yet nearly all of the region's railways are still state-owned and need wads of cash to carry out a backlog of maintenance and investment necessary to bring them up to EU standards.

Estonia has moved fastest: in 2001 it sold its entire rail network to an international consortium of investors. Private money has been ploughed into infrastructure. Productivity and profits have risen. Yet things are not all rosy. New railway legislation, designed to bring in new operators, has allowed a handful of Russian firms tied to Severstal, a big steel producer, to snap up over half of the infrastructure. One of these even sued the earlier company, Eesti Raudtee (Estonian railways), for allegedly over-charging for use of its track, and has not paid its bills since January. Russian carriers were bound to muscle in, as oil exports account for the bulk of Estonia's rail freight. But liberalisation, says Ed Burkhardt, Eesti Raudtee's boss, “has not gone according to plan.”

In Poland, liberalisation has not gone far enough. Once described by the OECD as a “state within a state, with its own schools and hospitals”, PKP, the national railway company, is an outmoded behemoth. True, it has trimmed its headcount sharply and unbundled its assets. But it has done little to streamline its operations, which will mean closing loss-making regional passenger lines and bolstering its more attractive freight unit. There are plans to privatise the cargo business, but bidders could be deterred by the high track-access fees. These could be cut if PKP's overmanned infrastructure arm were cut first. There is little chance of that: on June 6th, the unions will decide whether to strike in the hope of halting privatisation and slowing restructuring.

Nor will PKP's fortunes improve if the bulk of Poland's transport investment goes on roads, as it well may, given how few motorways there are. Brussels talks of heavier tolls on lorries, and dreams up trans-European rail networks. But “look at the new members' infrastructure plans,” laments Johannes Ludewig, of CER, a lobby group for the EU's main railway companies, “and rail is losing out to road.”

Yet Slovakia's rail-freight company is hopeful. It says it expects to carry 85% of the 900,000 cars a year which Slovakia will produce by 2008. In a country fast becoming the Detroit of Europe, ZSSK Cargo's privatisation could be quite a success.

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German business and private equity

Locust versus locust

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American investors fight each other over Celanese

COMING under attack at last week's annual general meeting of Celanese AG was the Blackstone Group, an American private-equity firm that owns 84% of the German chemicals company. No surprise there, you might think, given the debate raging in Germany about alleged locust-like behaviour by foreign private investors—except that in this case the attacker was also a "locust", Paulson, an American hedge fund, which owns 11% of Celanese.

Paulson claims that Blackstone, which bought the listed company in April 2004 and took it private, is offering too little to remaining shareholders. It believes that a so-called "domination agreement" implemented through a vote by shareholders last October was invalid, and has started a court action contesting the valuation. Paulson wants almost €73 ($90) a share, not the nearly €42 on offer. Celanese's management made shareholders vote again on the agreement at the end of the stormy annual meeting, which unusually lasted a full two days. Paulson—which hopes for a possible €50m premium—is expected to contest that vote too.

If anything, this dispute is evidence of the success of Celanese under its new American ownership. Formerly a competent but undercapitalised firm whose managers feared it would become a victim of industry consolidation, Celanese was offered fresh capital by Blackstone (albeit mostly debt), along with a chance to grow both organically and by acquisition. In January, Blackstone listed a new parent company, Celanese Corporation, on the New York Stock Exchange, floating 38%. The proceeds, plus dividends and one-off fees, have so far netted Blackstone and its investors around €3.1 billion. Not bad for a capital investment last year of around €650m.

Has this damaged the company, as German critics claim foreign locusts do? Not according to those who run it. Its additional debt has meant the loss of its investment-grade status; but cashflow is good and it now has a serious opportunity to grow in China. Even Paulson has no criticism of how the firm has developed.

That kind of transformation by a private-equity investor is not uncommon. Such investors tend to focus on generating strong cashflow, and controlling capital expenditure strictly, so that the debt can be serviced. The firm's managers and workers, and their objectives, are constantly under review. Although new for many German firms, with their long lunch-breaks, rest cures and limited working hours, such changes are surely long overdue.

Yet not all German private-equity deals have been a success. In the worst cases, debt has strangled the firm, or new management has been poor, or the deal was mispriced. In the case of Bundesdruckerei, a state-owned printing works bought by Britain's Apax Partners in 2000, the inflexibility of the workforce and various other factors produced too little cashflow to service its debt. In the case of Fairchild Dornier, an aircraft firm bought by America's Clayton, Dubilier and Rice in 1997, poor business strategy led to bankruptcy.

Private-equity firms typically seek an annual rate of return of at least 15%. But few of them are as short-term as the locust-critics suggest: typically, they invest in a firm for around five or six years. Lately, it is true, such times have become shorter, and private-equity firms have raised suspicions by selling on businesses to each other. Grohe, a maker of bathroom-ware, was sold by Bain Capital Partners to Texas Pacific and others after a decision not to go public; Bain Capital also "flipped" Jack Wolfskin, a seller of outdoor clothing, to another private-equity firm after only 30 months; and Sirona, a maker of dental equipment, has just been sold to its third financial investor in a row.

Yet as they grumble about being called locusts, traditional private-equity funds are quietly making similar accusations about the growing role being played in corporate Germany by hedge funds, such as Paulson. Hedge funds are unashamedly short-term; they command more capital and can move in and out of investments far more quickly than private equity firms. And because hedge funds are under pressure in their traditional business, which is short-term arbitrage in liquid markets, they are attracted by returns from private equity potentially at least double what they expect from their usual activities.

Recently The Children's Investment Fund (TCI) has brought about management change at Deutsche Börse, the German exchange group (see article). Perry Partners is sitting on a 6.4% stake in Rheinmetall, hoping for a break-up of the automotive and defence conglomerate. Guy Wyser-Pratte, an American arbitrageur, is battling management at IWKA, an engineering firm in which he has a 6.5% stake.

These investors have certainly unsettled their targets. But, arguably, even these hedge funds are helping to correct weaknesses in the German corporate landscape. Certainly there is as yet no clear evidence that they are doing harm.

One reason for the predominance of financial buyers in Germany is the lack of companies willing to make acquisitions in Germany for strategic, as opposed to narrowly financial, reasons. Most big German companies these days are focusing on their core business and spinning off units, rather than building by acquisition. Many have become (perhaps excessively) risk averse, as is also reflected in a sharp decline in corporate investment even as their productivity, exports and profits soar.

When their confidence returns, strategic buyers are generally likely to outbid private-equity firms and hedge funds, because integrating industries brings cost reductions and other synergies that are less easily garnered by financial buyers. But in the meantime, locusts or not, financial investors are likely to remain busy in Germany, and corporate managers will have to learn how to get along with them.

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South African gold

Joke over

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Curtain down on the farce of Harmony's bid for Gold Fields

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WHAT wonders the failure of a bid can do for your share price. Last October's bid from loss-making Harmony for bigger, profitable Gold Fields of South Africa was already within hours of dribbling to its end last Friday when South Africa's high court mercifully applied the knife: the two-stage bid, it ruled, had in law been dead since mid-December because its extension had not followed the rules. On Monday, Harmony shares soared by nearly 15%, before closing 9.8% up.

The bid had been impudent at best. Harmony offered Gold Fields shareholders nothing more solid than its own shares, at a mere 13% premium to Gold Fields' pre-bid share price. The bid soon became a farce, as both share prices slid, but Harmony's slid faster. Though Russia's Norilsk Nickel had provisionally pledged its 20% of Gold Fields, other acceptances together totalled less than 12%. By its expiry date on Friday, with the paper offer 15% short of Gold Fields' market value, the bid was clearly dead, court or no court.

Harmony had spent over $25m on it, Gold Fields probably more. In rand terms, the shares were down by 42% and 30% respectively, even after both rose on Monday—thanks in part to rand weakness against the dollar. That weakness provides some hope to South Africa's miners. Harmony will need it: in the quarter to March it lost $355m pre-tax, and it is now planning to lay off nearly 12,000 employees.

The only winners have been public-relations men, the newspapers that gleefully printed the rival advertisements—Gold Fields alone ran 15 different ads—and, of course, the lawyers hired to fight umpteen regulatory hearings and the legal actions launched by Gold Fields, not just in South Africa but in Britain and America, too.

And now? With the death of the bid, which under South African law greatly restricted Gold Fields' freedom of action, many expect to see that company playing footy-footy with Norilsk, which is to hive off all its gold holdings in a new company, Polyus, that may seek a western listing. Polyus might indeed soothe Harmony's unhappy holders by offering real money for the 11.5% of Gold Fields now in their company's hands. But Bernard Swanepoel, Harmony's chutzpah-rich chief executive, who played the lead role in its costly bid, will be lucky if he survives merely with egg on his face. The mineworkers are not alone in thinking it is time he got the chop.

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Telecoms regulation

Spectrum of opinion

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Are Europe's telecoms regulators about to become more flexible?

SHOULD regulators tell wireless operators which technologies to use, or let them decide for themselves? Europe has historically favoured the former approach, and America the latter. But European regulators are now considering changing their position as they prepare to auction off a big chunk of the wireless spectrum known as the "3G expansion band". This was originally ear-marked to provide extra capacity for third-generation (3G) mobile networks, now up and running across western Europe. But, says Kip Meek of Ofcom, Britain's telecoms and media regulator, "pen-pushers like ourselves are not necessarily in the best place to determine how resources should be used." That is why Ofcom is calling for a new "technology neutral" approach to spectrum regulation.

The current, more prescriptive approach had its greatest success with GSM, the second-generation wireless technology that was mandated as a Europe-wide standard in 1987. Use of a single standard made possible economies of scale, widening access to mobile phones and allowing for easy roaming between countries. America's free-market approach, in contrast, led to a horrible patchwork of incompatible technologies that took years to sort out. But, notes William Webb of Ofcom, Europe's regulators have also made some bad choices. Ermes, a paging technology, and TFTS, a system for in-flight telephony, were both mandated by regulators but never implemented. As a result, the spectrum allocated to these services remains unused. "By mandating a particular technology you run the risk of picking the wrong one," says Mr Webb. "Technology neutrality allows the market to decide."

Accordingly, Ofcom has proposed that when the 3G expansion band (a piece of prime real estate between 2.5GHz and 2.69GHz, since you ask) is auctioned off, possibly as early as next year, operators who buy chunks of spectrum ought to be able to decide whether to use it for 3G, or for alternatives such as WiMax or mobile TV. They would be free to change their minds about which technologies to deploy, and would also be able to sell unwanted spectrum to other operators. This is all standard stuff in America, but would be a dramatic liberalisation of the European rules. It would widen choice for operators and would lead to a more vibrant and competitive market overall.

Why this sudden interest in American-style, er, *laissez-faire*? In short, more flexible technology. GSM, for example, has been deployed in different frequency bands around the world, but modern handsets now routinely contain tri-band or even quad-band radios, so can be used anywhere. As handsets get smarter, they are better able to switch between different standards. And, notes Stephen Pentland of Spectrum, a consultancy, the industry has matured and can now do standard-setting on its own. Regulators can step back.

Not everyone agrees. Some European operators are wary of technology neutrality: having spent billions on 3G licences and networks, they are afraid of being undercut by rivals using newer, cheaper technologies. Other operators, however, are itching to deploy new technologies as complements to 3G, and believe that the industry, not regulators, should be setting standards. Equipment vendors are also divided: some would like the 3G expansion band to be reserved for 3G, since that will lead to greater sales of 3G gear; conversely, others hope to sell non-3G equipment. Regulatory opinions vary too. Those in Sweden and Ireland are thought to favour liberalisation, while those in, say, France and Germany are more cautious, for now.

The European Commission, which is broadly in favour of the idea, asked CEPT, a standards body, to draw up some new rules that would allow for a technology-neutral approach to dividing up the 3G expansion band. But the resulting text was ambiguous. So next week the matter will be taken up by national regulators at a meeting of the Radio Spectrum Committee (RSC), which may then make a policy recommendation to the commission.

The debate is not so much about whether to embrace technology neutrality as how much, and how soon. “Very few people disagree with the general concept of neutrality,” says Mr Webb. It is, he says, a “motherhood and apple pie sort of thing” that nobody now wants to admit opposing. But those with vested interests in the status quo favour a slow switch, not before 2008, while champions of new technologies prefer a quicker one. Even if they lose the current battle over the 3G expansion band, advocates of technology neutrality seem likely to win eventually.

Does this mean the Americans were right all along? Yes and no. Europeans can argue that more regulation was justified in the early days of mobile phones, to prevent chaos. They can also point out that liberalisation is now possible, without the risk of a free-for-all, in part because of years of harmonisation by regulators: the 3G expansion band is, for example, only clear for use by new technologies because it was originally fenced off for 3G by so many countries. Tighter regulation in the past, in short, means that European consumers are well placed to reap the benefits of a more flexible approach in future.

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Internet telephony

Emergency measures

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Internet phone calls come of age

A TEENAGER was unable to call an ambulance after her parents were shot in February because the family's internet phone service did not offer access to the 911 emergency number. A baby died in March for the same reason. Sad tales such as these led America's Federal Communications Commission (FCC) to vote on May 19th to require internet phone companies to offer a 911 service.

In so doing, the FCC seemed to have taken its first, big step towards imposing traditional telecoms rules on the internet—a contentious move given the fears that this will strangle what many still regard as an infant industry, especially if regulators elsewhere follow suit. But are the new rules really so bad?

The new rules uphold a subset of telecoms policy, social objectives, which is much less burdensome than the FCC's hugely unpopular economic regulation. Many providers of internet telephony—strictly, Voice over Internet Protocol (VOIP)—have for years sought the technical ability to provide an emergency service, knowing that such a feature would be essential were internet telephony ever to become a truly credible alternative to the traditional phone service. Incumbent operators that manage the emergency-service system have not always made it easy for the upstarts to interconnect, which costs a provider almost $10m a year for nationwide service. The FCC has signalled that incumbent operators had better now act fairly.

Moreover, the new rules apply only to certain firms, are easy to implement, and provide flexibility for future technical improvements. Only firms that offer VOIP via the public telephone network will have to provide 911, and to use it their customers will have to register their addresses. Only when internet technology is developed to allow the network to tell where a phone is connected to it will other VOIP operators be required to introduce this facility. Significantly, services based mainly on software, such as voice-enabled instant-messenger programs or online video games, which do not try to resemble regular phone service, are exempt.

All in all then, the new policy is unlikely to do much to slow a business now growing rapidly worldwide. In America, VOIP is on track to exceed $1 billion in revenue this year, with over 3m users. Many ordinary phone firms now use the technology to connect calls, helping VOIP to account for a growing slice of

international phone traffic.

Having found an elegant way to impose 911 rules on VOIP, the FCC's next challenge will be to secure wire-tapping capability for law-enforcement surveillance. This is an issue that similarly has been quietly debated for years. It may take another set of tragedies before it is mandated in a quick, unanimous vote by the regulators.

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Face value

The Amazon's Texan saviour

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Can John Cain Carter, an American rancher, save the rainforest?

Get article background

AT THE helm of a second-hand Cessna aircraft, John Cain Carter is as preoccupied with the Earth below as he is with the clouds ahead. An expanse of pasture the size of a small principality “used to be all forest,” he points out, banking right. And the flood plain between the Rio Araguaia and the Rio das Mortes was once “stirrup-high in water. Today you can drive a jeep out there in the rainy season,” he concludes, ruefully. Mr Carter attributes the unnatural dryness to landowners who cut down trees to make way for pasture, shutting off the supply of moisture from tree to cloud. Watching it happen “is a nightmare.”

These comments are given extra credibility by the fact that Mr Carter is himself a rancher, with 8,100 hectares (20,000 acres) on the denuded eastern edge of the Xingu river basin in Mato Grosso, a vast Amazonian state. But he is convinced that landowners, now widely reviled as enemies of the rainforest, could become its saviours. That will require incentives, which can only come from the increasingly globalised markets for Brazilian beef and soya, now the main threats to the rainforest. Mr Carter, an irrepressible Texan, has ambitious plans for encouraging consumers to provide such incentives and producers to accept them.

His idea is gaining traction. In the year to August 2004, according to data released this month, 26,130 square kilometres (10,000 square miles) of Amazon rainforest were destroyed in Brazil, mostly by ranchers, farmers or speculators who cleared land in anticipation of ranchers and farmers coming. That is the second-highest level of destruction on record. The law supposedly limits deforestation to 20% of privately owned rainforest, while a network of reserves protects some public land. But in practice frontier law is feeble. So some environmentalists have decided to co-operate with landowners rather than fight them.

This co-operation began in the logging industry. Furniture-makers who buy wood that is harvested “sustainably” can now slap the seal of the Forest Stewardship Council (FSC) on their wares, encouraging sales to green-minded consumers. There is now a scramble to adapt this approach to ranching and farming, which do more damage to the rainforest. Last month, The Nature Conservancy, a non-governmental organisation (NGO), announced an agreement by which Cargill, a huge American

agriculture company, will buy soya near its export terminal at the confluence of the Amazon and Tapajós rivers only from farmers who obey the law or are clearly moving towards doing so.

What is novel about Mr Carter is that he sees things from the point of view of the producers, and is rooted in ranching—a bigger threat to the Amazon even than soya. He is the driving force behind Aliança da Terra, a new NGO that aims to be a “bridge” between producers and environmentalists, promoting standards of good practice that both sides can live with. Global worries about foot-and-mouth disease and the like are already pushing Brazilian producers towards certification. If Mr Carter has his way, all of Brazil's agricultural output will carry an FSC-style seal, reflecting health, environmental and social standards.

Would such certification really change much? After all, wood certification has not yet stopped predatory logging, largely because much of the wood hauled out of the Amazon is sold in Brazil, where low prices count for more than green guarantees. In agriculture, certification may face even bigger obstacles. Brazilians buy most of the beef raised in the Amazon. Ethically-untroubled China is a huge market for soya. To succeed, the current profusion of proposals will have to be welded together by consensus, a process Mr Carter is more likely to influence than lead.

Much will depend on whether that consensus forms around encouraging producers or punishing them. Many greens think that it is meaningless to talk of sustainable soya or beef in the Amazon. If anything should be certified, it is that the stuff is being produced somewhere else, or on land deforested long ago. The proposed “Basel standards” endorsed by Coop, a big Swiss supermarket, would not bless soya from newly deforested areas, for instance. But Mr Carter, like all Amazonian agriculturalists, thinks that further deforestation is inevitable and that the 20% legal limit should be raised, at least in areas more fit for farming than conservation. Why should greens accept this? Because, he says, much could still be preserved, and without the co-operation of landowners “every tree is going to be cut down.”

It takes a Texan

Mr Carter is an unlikely bridge builder. As a child in San Antonio he trapped mink and raccoon, selling their pelts for pocket money. In the army he dropped behind enemy lines in the first Gulf war. He views himself as a “pioneer” on a frontier with “so many parallels with the old West.” Cattle losses to jaguars and rustlers, in this case Xavante Indians, are line items in the budget of his ranch. He indulges in a bit of Texas swagger, as if George Bush had not made it the world's least fashionable sub-culture.

His friends are hardly more appealing to greens. The environmental director of Grupo André Maggi, the world's biggest soya grower, co-founded Aliança da Terra. One of the firm's owners, Blairo Maggi, is governor of Mato Grosso, where about half of last year's deforestation took place; Greenpeace, an NGO, has crowned him the “king of deforestation”. Mr Maggi worries that as trade barriers fall Brazil's competitors will use such titles as an excuse to block imports. The answer, he thinks, is to produce “totally within the law,” as his firm already does. His government has asked Mr Carter's group to develop criteria for certification.

Yet Mr Carter's allies are not all producers. The Brazilian head of The Nature Conservancy is on Aliança's board. IPAM, one of the main Amazonian research institutes, is its scientific partner. They are betting that as Brazilian agriculture becomes more corporate and internationally oriented it can be made to behave more responsibly. If not, the Amazon may be doomed.

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Hedge funds

Dead, or just resting?

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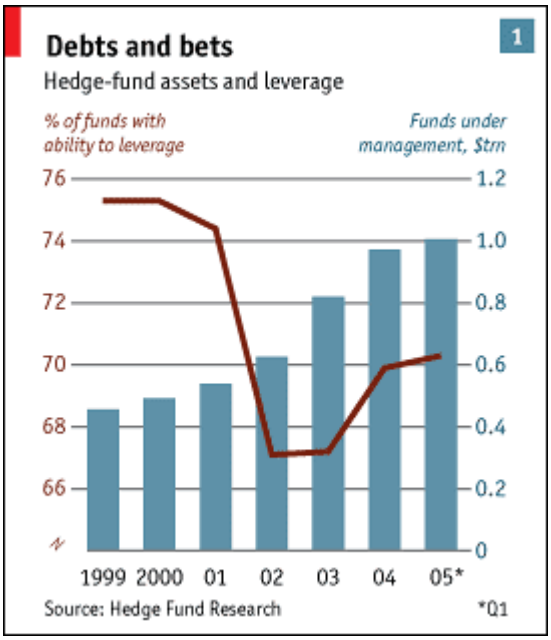
Reports of the death of hedge funds have been greatly exaggerated

Get article background

THE list of the fallen is getting longer. At Bailey Coates, a London firm, one hedge fund is believed to have lost more than 20% of its net asset value so far this year. The Strategic Allocation Program of John W. Henry, of Boca Raton, Florida, is expected to be down by 27% in the course of 2005. Quadriga, an Austrian hedge-fund group, has two funds which have lost more than a fifth of their value since last December.

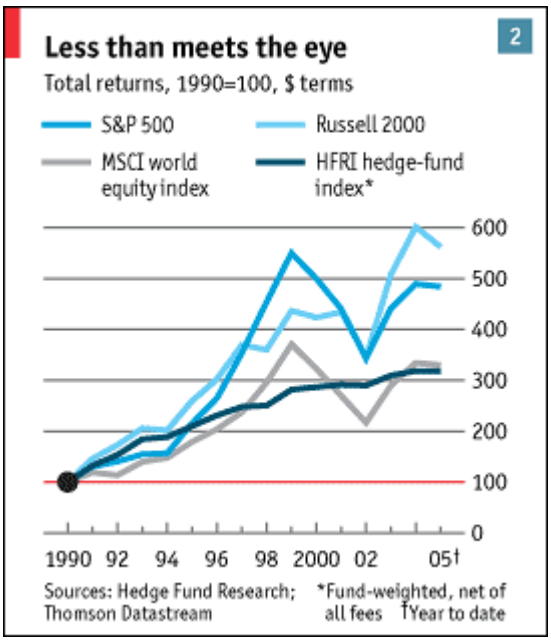


These are just a few of the hedge funds whose recent losses are hardly the “absolute returns” for which

their clients pay generous fees—typically 1-2% of assets, plus 20% of returns, often above an agreed minimum. Some lost money on credit-market positions involving the huge debt of General Motors and Ford, whose recent tumble to junk status pushed credit spreads sharply wider. Others came a cropper in convertible-bond arbitrage. Both strategies, reckon researchers at Morgan Stanley, an investment bank, have cost their adherents 10-15% so far this year. Quadriga, which invests mainly in futures, lost some of its wagers on commodity and Treasury-bond prices.

Hedge Fund Research, in Chicago, calculates that hedge funds lost 0.7% on average in the first four months of the year. That still beat the S&P 500, which shed 4%, but was far from brilliant. Other hedge-fund number-crunchers show different figures but a similarly depressing recent trend. Are the funds on the brink of disaster? No, but their glory days may well be behind them. In a sense, they are victims of their own success.

Hedge funds—loosely regulated pools of investment capital that are supposedly for rich and knowledgeable investors alone—have grown explosively, as chart 1 indicates. They preserved their investors' capital when stockmarkets plunged in 2000, beating the index by a wide margin for each of the next three years (see chart 2). Since then, with returns to cash minimal, stocks going nowhere and bonds looking overpriced, investors have flocked to hedge funds to improve sparse returns.



Pension funds and insurers dipped cautious toes into the hedge-fund water. So did the fairly rich (following the very rich). Fast-growing “funds of hedge funds”, which spread investment among a number of hedge funds, gave new investors an easy (if expensive) way in. Today, though no one really knows, it is thought that some 8,000 funds manage at least $1 trillion in assets.

As their industry has grown, hedge funds have changed. Many have pushed into less liquid and more esoteric markets (distressed debt and structured finance, for example), as well as into anything but exotic long-only equity investment. They have also begun to use more borrowed money to enhance returns. Today, 70% of hedge funds have the ability to use some amount of leverage, says Hedge Fund Research. Many firms have geared up with debt equal to twice capital and some up to five times capital—though even that is far less than the levels seen in the 1990s.

Another change is the new importance of funds of hedge funds. These now account for some 45% of hedge-fund assets, up from 18% in 2000, according to Morgan Stanley, and for 60% of inflows. Many fund-of-funds managers are traders at heart and lack the longer-term commitment of a pension fund or an individual investor. By imposing their own fees on top of hedge funds' hefty charges, funds of hedge funds may have helped to create impossible targets for investment returns. And many use borrowed money to improve returns. A number of well-established hedge funds say they refuse to take money from leveraged funds of funds, but some newer ones are not so picky.

Has the quality of fund management deteriorated? Many think so. “What now travels under the name of hedge fund is often just speculation,” says Tim Price, of Ansbacher, a private bank. The barriers to entry for funds of hedge funds, in particular, are minimal. As a result, “a lot of capital has gone to average or

below-average money managers," says Jacob Schmidt of Allenbridge, a hedge-fund research firm.

For all their drawbacks and recent troubles, hedge funds have their uses. They provide liquidity to the markets, and they help companies to raise money and financial institutions to lay off risks. Whether or not they are now set for the meltdown that some have prophesied depends mainly on four things.

Whither hedge funds?

The first is whether investors exit en masse. Fed up with returns less glorious than those they expected, many are growing restless. Inflows may have been slowing already in the second half of 2004; new money in the first quarter of 2005 was a healthy $25 billion or more. But Hedge Fund Research notes a reduction in money from funds of hedge funds, which normally drive asset growth.

Morgan Stanley's researchers believe that last quarter may prove to have been the peak. Private money is coming in at half the rate it did a year ago, especially from among the lower ranks of rich individuals. Institutional investors are proving stauncher but it remains to be seen whether they are rattled by calls for public bodies such as California's state pension scheme, CalPERS, to reveal their hedge-fund investments.

The second question is whether recent ructions in the credit markets provoke a wave of redemptions by investors, forcing funds to sell what they can rather than what they should. Many funds lock in investors for at least three months, and June could prove a moment of truth. Hedge funds trying to unwind unprofitable positions now are having mixed results. "Material" liquidation is taking place in the convertible arbitrage market, says Huw van Steenis of Morgan Stanley. Structured finance seems to be proving more resistant.

A third issue is what will happen as interest rates—in America, anyway—rise. At the moment, historically low rates have cosseted hedge funds and other investment groups with big borrowings. "If interest rates increase, leveraged industries might get into trouble," says Olivier Khayat, head of debt capital markets at Société Générale, a French bank.

A fourth question is whether any liquidations, forced or otherwise, prove contagious, thus destabilising other markets and players. No one speaks so far of having seen the sort of contagion across asset classes that took place when Long-Term Capital Management got into trouble in 1998. But there are certainly risks that more and worse is to come.

The prevalence of funds of funds is one danger. Because they are often leveraged themselves (almost half can use borrowed money), if a fund in which they invest gets into trouble its losses are magnified at the fund-of-fund level, forcing it to pull money out of other, perhaps better managed, hedge funds in compensation. This could create a domino effect.

Another risk lies in the importance of hedge funds to the banks that serve them. Though hedge funds' assets account for only a tiny portion of global capital under management, their trading amounts to a high percentage of investment banks' revenues in some areas of business, especially convertible bonds and distressed debt, for example. They are also the banks' counterparties in transactions such as credit-default swaps. So any big troubles among hedge funds are likely to be felt by investment banks and prime brokerages. Small wonder that many analysts are downgrading the sector.

It can be argued that the sharp shock of recent weeks is just what was needed to scare low-quality money out of the hedge-fund business. "This is a healthy shake-up of the industry," says Charles Gradante of the Hennessee Group, a research firm specialising in hedge funds. If he is right, a stronger industry will emerge.

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German capital markets

The taming of Rolf Breuer

May 26th 2005 | FRANKFURT
From The Economist print edition

A top German banker learns to be nice to hedge funds

Get article background

Reuters

Their newest fan

WHAT a difference a couple of weeks make. On May 10th Rolf Breuer, supervisory-board chairman of Deutsche Bank, Germany's biggest bank, and of Deutsche Börse, an exchange group that runs the Frankfurt stock exchange, had nothing good to say about hedge funds. That was a day after pressure by one of them, The Children's Investment Fund (TCI), based in London and owner of 8% of Deutsche Börse's shares, had forced him to fire Werner Seifert, the company's chief executive, and announce that he would depart himself by the end of the year.

"It is dangerous when hedge funds lord it over everyone and force their views on the majority of stability-oriented investors," he told *Capital*, a monthly magazine. Germany should seriously consider stricter legislation against hedge funds, he urged.

That was then. On May 25th, at Deutsche Börse's keenly anticipated AGM, Mr Breuer went out of his way to be nice to these alternative investors: "For Deutsche Börse, hedge funds are a very important group of clients," he said. A German law could have no impact on offshore hedge funds anyway, and it would even be damaging to discuss one. "We see hedge funds as an enrichment of the capital markets: they take risk where no one else dares."

He could have been parroting the very words of Christopher Hohn, chief investment officer of TCI. In fact he probably was. At a stormy meeting two days earlier Mr Hohn told Mr Breuer that as chairman of an exchange he had no business to be rude about hedge funds, which were among its best clients: it was like an ice-cream salesman saying he hated children, Mr Hohn explained. The two men seem to have reached an understanding. Soon afterwards Mr Hohn announced that, with Mr Breuer already on his way, he would not go ahead with a formal call for his head at the AGM, a motion he had filed on April 14th.

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Europe's and America's economies

Out of kilter

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Interest-rate puzzles lie at the heart of global economic imbalances

IN MANY ways, the OECD's twice-yearly *Economic Outlook*, published on May 24th, is entirely predictable. The OECD worries loudly about America's current-account deficit—on course, it thinks, for $900 billion next year—and offers the usual list of antidotes: more saving in America, faster demand growth in Europe and Japan. Less predictably, given the normally guarded tone of such official reports, it takes aim at the unwillingness of the European Central Bank (ECB) to cut the euro area's short-term interest rates.

In so doing, the OECD highlights an important transatlantic curiosity. In the euro area, the ECB has kept short-term interest rates constant, despite ever gloomier economic news. Long-term rates, though, are responding to the misery. In America, where the Federal Reserve has been increasing short-term rates amid economic strength and signs of inflation, long-term rates have stubbornly refused to climb (see chart).

Like every other forecaster, the OECD has slashed its growth projection for the euro area, to a mere 1.2% this year. This conceals wide variations: France and Spain look fairly resilient, Germany and (especially) Italy ever sicklier. The zone's mediocre performance, the OECD says, is not just bad luck, “circumstantial arguments”—the Iraq war, oil and commodity price shocks and the stronger euro—being no excuse for a “string of aborted recoveries”. Although structural reforms, a favourite drum of the ECB, are part of the answer, stronger demand growth requires lower interest rates. Much lower, indeed: Jean-Philippe Cotis, the OECD's chief economist, spoke of the need to cut rates by half a percentage point “between now and the end of spring”.

The OECD's call was echoed the same day by the head of Ifo, a respected German research institute, who said that the ECB should put its “foot on it”. The central bank, however, is in no mood to heed such calls. Jean-Claude Trichet, its president, ruled out a rate cut at the ECB's most recent press conference on May 4th. He repeated the message to members of the European Parliament at the start of this week. The central bank's main concern is inflation, which has been hovering above the ECB's target of 2% or less. The bank also fears that lower short-term rates would do little to repair Europe's economic problems, because they would raise inflationary expectations and thus long-term interest rates.

All this seems overblown. As a special study in the OECD report makes clear, core inflation (for example, leaving out the relatively volatile prices of food and energy) in the euro zone is not only low, but on a downward trend. And Europe's long-term rates are at record lows.

Would they rise by much if monetary policy were loosened? Maybe not, if America is any guide. American conditions—a strong economy, gathering inflation and rising short rates—seem to favour higher long-term rates. Yet yields on ten-year Treasury bonds are not much more than 4%. Last June, when the Fed began tightening, they were 4.6%. This “conundrum”, as Alan Greenspan, the Fed chairman, has called it, perplexes economists.

So why aren't Treasury yields rising? Long-term nominal interest rates are influenced by many things, including investors' expectations of inflation and future short-term rates, and a risk premium for holding long-term assets. Inflationary pressures are building, unlike in the euro area, and the OECD's analysis suggests that this is likely to continue.

Some argue that the Fed's inflation-fighting credibility means that investors think price pressures will be kept under control. The Fed's “measured” interest-rate rises may also have made investors fairly confident about the future path of short-term rates. Others focus on technical shifts in the demand for bonds, such as pension funds' increased desire for longer-duration assets. Lately, investors seem to have preferred safer Treasuries to riskier corporate bonds. Others suspect that the bond market's strength may betray a suspicion that the economy is weaker than it looks. It may also reflect a glut of saving abroad.

Which explanation proves right will be of more than academic interest. For low long-term interest rates, by holding up the bubbly property market, are underpinning American consumption and growth. When, how far and how fast they rise will determine just how the world's imbalances are unwound.

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Japan's economy

Land of the three mistakes

May 26th 2005 | TOKYO
From The Economist print edition

Policymakers seem determined to thwart Japan's economic recovery

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WHEN Japan's economic figures are mixed, as they were this week, it is safer to trust the depressing bits than the cheery ones. However one interprets the latest blips in output or exports, Japan's policymakers are still worryingly error-prone. Recent mis-steps by both politicians and technocrats have highlighted three of the biggest risks to recovery.

One is China, with which Japan's relations hit a new low this week. Exports to that country accounted for much of Japan's rapid growth between early 2002 and last year. Lately, however, the pace has slackened. Figures released on May 25th showed a 7.8% year-on-year increase (in yen terms) in April; but the volume of exports fell, and has been roughly flat in the past three months. And the revival of the long-dormant domestic economy, which made a decent contribution to the first quarter's surprisingly strong GDP figure, does not yet look secure.

Anti-Japanese sentiment in China, which erupted last month over history and other issues, is unlikely to help exporters. Relations were not improved last week when Japan's prime minister, Junichiro Koizumi, quoted Confucius in an effort to dismiss the two countries' troubled past. China's vice-premier, Wu Yi, cancelled a meeting with Mr Koizumi on May 23rd and returned to China abruptly. Mr Koizumi's blunder and Ms Wu's snub managed to distract attention from the second threat to recovery: the Bank of Japan (BoJ).

At the end of last week, the BoJ took the first step in what may be an early and ill-advised end to its loose monetary policy. With interest rates already zero and prices still falling, the central bank has been pumping liquidity into the financial system by keeping the balance of banks' current accounts above ¥30 trillion ($280 billion). The BoJ's governor, Toshihiko Fukui, has said that it will not raise interest rates until prices have clearly stopped falling. However, the central bank has also let it be known that it wants to start closing the liquidity tap much sooner. Its first step was a subtle one. It said that from now it will allow current accounts to fall below the target temporarily when “liquidity demand is especially weak”.

Most onlookers reckon that the central bank will let this happen a couple of times before declaring, perhaps later this year, that the high liquidity target is no longer necessary. “The BoJ can overcome the technical problems if it wants to,” writes Richard Jerram, an economist at Macquarie Research in Tokyo, so people “should assume that if current-account balances fall below the target then this is due to a deliberate policy decision.”

The BoJ's hostility towards a little inflation is hard to fathom, given the damage that falling prices have done. It almost seems as if the BoJ is in a hurry to make its mistake before the finance ministry makes its own blunder, by raising taxes. This is the third threat to Japan's recovery.

Japan's public debt has risen sharply since the bubble burst in 1989: by one measure it is now over 150% of GDP, and the annual fiscal deficit is still 6.4% of GDP. So now that banks' bad loans have fallen and the economy is looking less poorly, the finance ministry has been keen to declare victory over stagnation so that it can increase consumption and other taxes.

Arguably, Japan's economy is still too weak to warrant a tightening of either fiscal or monetary policy; certainly, it would be unwise to try both. But Japan's officials perennially place the goals of their own institutions before the needs of the economy. So the markets have been watching for months, while the two sets of officials have jockeyed to be the first to tighten. Will Mr Koizumi's wise words damage exports

before the bureaucrats succeed in clobbering domestic demand?

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Central banking

A horse, not a camel

May 26th 2005
From The Economist print edition

Committees are better at setting interest rates than individuals, it seems. Why?

THE old jokes about the uselessness of committees go unheeded in the world's central banks. Most of them rely on several heads to set interest rates. An experiment* by three economists at the Bank of England—which eight years ago this month took over rate-setting powers from the once omnipotent chancellor of the exchequer, and has enjoyed conspicuous success since—suggests that collective wisdom is exactly that.

The researchers took a gang of economically literate students from the London School of Economics and tried to replicate the deliberations of the Bank of England's Monetary Policy Committee. They found, as previous studies have done, that committees reach better decisions than individuals do. They also asked why this might be.

Working alone at the beginning and end of the experiment, and in committees the rest of the time, the students attempted to manage a notional economy via interest rates. They knew little about how their toy economy was supposed to work, but were expected to infer more from the responses of inflation and output to changes in interest rates. The economy was also subject to unpredictable external shocks, both large and small.

The average score in committee was far higher than the average in individual sessions. It was also better than all but the best individual scores. Although performance improved between the two sets of solo exercises, individuals did worse even in the final rounds than they had in committee. They were more aggressive in changing rates than the underlying model required 92% of the time, against the committee's 9%.

One possible explanation for the superiority of committees is that majority voting cancels out the worst performers. The experiment bears that out. Another is that committees allow individuals to share knowledge. This, it turns out, is true too—but curiously, committees that were permitted to discuss their decisions did slightly worse than those that were not. The researchers find this hard to accept, and think that in real life talk has much to recommend it.

But other studies suggest that groups which discuss the job at hand may be too swayed by the alpha arguer among them. That is an argument against the domination of a rate-setting committee by a single individual—and is one reason why the departure, due next January, of Alan Greenspan, long-serving chairman of America's Federal Reserve, might be less worrying than it seems.

* "Committees Versus Individuals: An Experimental Analysis of Monetary Policy Decision Making", by Clare Lombardelli, James Proudman and James Talbot. *International Journal of Central Banking*, May 2005

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India's stockmarket

Contumacious fetishism

May 26th 2005 | MUMBAI
From The Economist print edition

A year after a market crash, regulators are still looking for a villain

Get article background

DESPITE a hunger for foreign capital, in India, as in many countries, there lingers a deep suspicion of foreign capitalists. So when the stockmarket index tumbled by as much as 17% in a single day—May 17th 2004—an investigation was launched into alleged murky dealings by a dozen foreign firms. A year later, the regulator, the Securities and Exchange Board of India (SEBI), has imposed its first sanctions. UBS Securities, the local arm of a Swiss financial giant, has been banned for a year from issuing offshore derivatives based on Indian shares. This week, there were reports that this may not be its only punishment. The central bank, the Reserve Bank, was said to be dragging its feet on approving UBS's application for a banking licence.

Yet SEBI, which on the anniversary of the crash issued a 60-page report on UBS's actions, has produced no evidence of market manipulation. The turbulence a year ago was shocking only in its extent. There had just been a general election, and to the surprise of virtually every pollster, journalist, politician and investor, it had been won not by the incumbent government but by a coalition led by the Congress Party. To stay in power, the coalition needed the support of Communist parties, who celebrated their triumph by rattling the markets with their policy statements.

UBS, like most institutions, was a big seller in the market that day—accounting for about 3% of total sales. According to SEBI, it lost 175m rupees ($3.9m) on sales in the cash market. However, SEBI says it made a profit of 594m rupees in the futures market, where it had a “short” position (ie, a bet on the market's falling). Yet, as Sandeep Parekh, a lawyer and academic specialising in financial regulation, points out, UBS ended the day with a huge “long” position in the cash market.

UBS's ban, against which it is appealing, is a punishment not for market manipulation, but for obstructing the investigation. It is accused—plausibly, according to Mr Parekh—of breaking rules requiring it to “know its clients” and to disclose information about them if regulators demand it. The report describes the bank's attitude as “contumacious” (stubbornly disobedient, says the dictionary) and “recalcitrant”, full of “cant” and “stonewalling”, while “making a fetish of client confidentiality” (which, as a Swiss bank, it might adopt as an advertising slogan). UBS, it concludes, “has failed to understand the essential meaning of ‘know your client' requirements.”

This reflects a long-standing worry in both SEBI and the Reserve Bank about the market in so-called “Participatory Notes” (PNs). These are derivatives sold offshore but based on Indian shares. Many of the investors in PNs are hedge funds, whose ultimate investors are not transparent to SEBI. So they might be Indian citizens, who are barred from such investments.

SEBI and the Reserve Bank feel uncomfortable about not knowing the origin of potentially huge volumes of “hot” hedge-fund money pouring in and out. But neither wants to drive foreign investors away. Similar punishments of the other 11 firms under investigation might start to have that effect: which is why many investors hope that the inquiry will disappear long before its second birthday.

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South Africa's banks

Banking on the unbanked

May 26th 2005 | JOHANNESBURG
From The Economist print edition

Reaching out to the poor

Get article background

NO ONE expected such success. Less than seven months after its launch, the Mzansi bank account, a basic account designed to bring the many South Africans who stash their cash under a mattress into their country's sophisticated financial system, has just won its millionth customer.

According to the FinMark Trust, an independent body promoting broader access to financial services, over half of South Africans over 16—close to 16m people—do not have a bank account. The main reason is the lack of regular income, a common affliction in a country where over 40% of people are unemployed. Without a salary slip, it is difficult to gain access to banking services, and fees are hard to bear. Without much money, many see no point in having an account anyway. And it is little help that banks and automatic teller machines (ATMs) are rare in poor areas.

South African banks, however, have signed a charter committing themselves to do their bit to redress the inequalities inherited from apartheid. The Mzansi account, currently offered by the country's four main banks and the post office, was born of this promise. The accounts have common standards, although each bank sets its own fees. The banks do not expect to make money from this service but hope to break even and, in time, to be able to sell other products to their new customers.

Mzansi accounts are easy to open—all you need is an identity document—and fees have been substantially reduced. Banks are also working hard to make them easier to open and use in townships and rural areas. Representatives of Absa, for example, are equipped with suitcases containing a computer, a scanner and a communications link that enable customers to open accounts without visiting a branch. Banks are also deploying new ATMs and “portable” branches.

The account's functions have been stripped to the bare bones. It can receive and hold money, and a payment card is provided, making it much safer than carrying cash. But it cannot be yet used for electronic payments or direct debits, so it is not much use as a way into other financial services, such as loans or insurance. However, some automated payments may be available soon.

So far, there are few alternatives to the Mzansi account, but more options are being developed. How many people can such accounts ultimately bring into the banking fold? Richard Ketley, who heads the banking practice at Genesis Analytics, a consulting firm, argues that it will largely depend on how the government pays social grants. Phasing out cash payment of welfare—a major source of income for many South Africans—would boost the number of accounts by several millions.

Having a bank account is only the first step, though. New basic savings and insurance products in the same spirit as the Mzansi account need to be developed if millions of South Africans are to benefit more fully from their country's modern financial industry.

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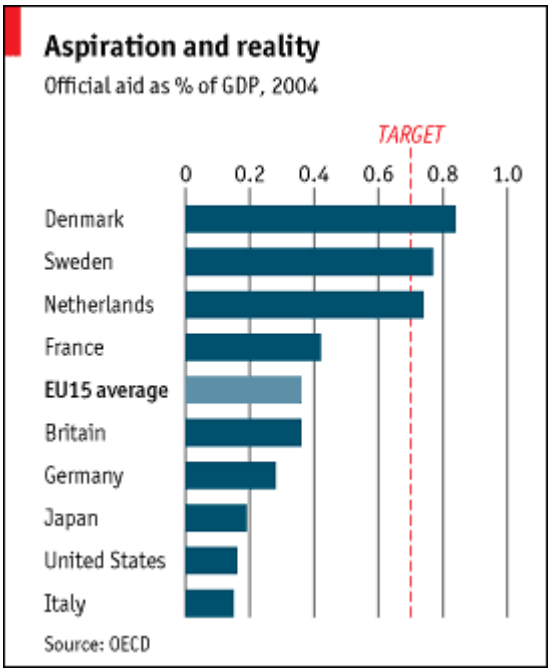
Foreign aid

Those stingy Americans

May 26th 2005
From The Economist print edition



A welcome infusion of new aid, and a useful debate

LIKE most things these days, the debate is couched in terms of America v The World. On May 24th, the European Union announced that its members would double their aid to poor countries by 2015. “The EU's bold announcement leaves the US with nowhere to hide. If they fail to step up to the mark and pay their share they will be responsible for derailing an historic deal on aid that would help lift millions out of poverty,” said Oxfam, a campaigning charity.

The EU's pledge was largely new and quite substantial. The richest 15 member states agreed that by 2010 they would all be spending at least 0.51% of national income on foreign aid, and that this would rise to 0.7% by 2015. The ten countries that joined the EU last year, which are mostly poor and recently communist, promised to give 0.33% by 2015. This would mean that EU aid would more than double in a decade, with about half of the new money going to Africa, the continent that needs it most.

One could quibble that six EU countries had already set dates for hitting that 0.7% target; or that rich countries first made the same promise in 1970, but gave only 0.25% in 2004. Some EU countries might not keep their promises this time, either: Germany, Italy and Portugal all have large budget deficits.

But overall, it looks as if the Europeans are serious: ie, a lot of new aid money will be disbursed. Since the American government gives only 0.16%, accusations of stinginess are inevitable. Europeans jeer that President George Bush's much-trumpeted Millennium Challenge Corporation, which was set up last year to help poor countries, has so far agreed to give money only to two: Madagascar and Honduras.

The Americans retort that, rather than handing out an arbitrary chunk of their national income, it makes more sense to ask well-governed poor countries to come up with their own plans to reduce poverty, and then finance the ones that sound plausible. Poor countries have taken a while to produce such plans, but those that do, the Americans argue, should make better use of the cash. Given how little is known about what kind of aid works best, it may be no bad thing that different donors try different approaches. But it might also be no bad thing if the Americans pledged a bit more before the G8 summit in Britain in July.

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Economics focus

Falling out of favour

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Should Europe's trade policies continue to afford privileges to its former colonies?

"TRADE follows the flag" was one of the slogans of the British empire: the gunboats and the redcoats opened the way for the merchants and the manufacturers (although, on occasion, the sequence was reversed). But long after the flag came down on Europe's empires, the continent's trade policies still offer more than a salute to its colonial legacy.

Through a succession of trade deals—signed first in Yaoundé, Cameroon, in 1963; then in Lomé, Togo, in 1975; and finally in Cotonou, Benin, in 2000—the European Union (EU) and its predecessor have kept their markets open to former colonies in Africa, the Caribbean and the Pacific islands (ACP). The EU's patronage is now enjoyed by 77 countries—Francophone, Anglophone and Lusophone—from which the EU bought €28.3 billion-worth ($35.1 billion) of goods last year.

The Lomé conventions gave the ACP countries privileged access to the EU market (plus a dollop of aid) without asking much in return. But these arrangements eventually fell foul of the World Trade Organisation (WTO), because they discriminate against countries, some of them poor, that did not happen to be colonised by a European power. Thus the Cotonou agreement envisages more give and take in the EU's relations with the ACP countries. If they are to keep their privileges beyond 2007, these countries will have to reciprocate, cutting their tariffs on "substantially all" EU imports (which might in practice mean only two-thirds for some countries) over a "reasonable" period (which might be 12 years or more).

This modest push for "reciprocity" is deeply controversial. The EU stands accused of forcing open the markets of some of the poorest countries in the world in order to further its commercial interests. Not quite gunboat diplomacy, the critics say, but an economic power play nonetheless.

To allay these suspicions, the British government in March felt compelled to renounce all "mercantilist" ambitions in its dealings with the ACP group. Likewise, it urged the EU not to "pursue any offensive interests" in these countries, leaving them to make their "own decisions on the timing, pace, sequencing and product coverage of market opening." But not all Europeans are so forbearing. In a memo leaked to Britain's *Guardian* newspaper earlier this month, Mogens Peter Carl, a senior trade official at the European Commission, described Britain's declaration as an "unwelcome shift", attributable to strong lobbying by non-governmental organisations and celebrities in the run-up to the British general election.

Are the charities and celebrities right to oppose "reciprocity"? A simulation by a group of economists at the United Nations Economic Commission for Africa gives warning that sub-Saharan Africa's low- and medium-technology industries could shed half their unskilled labour if the protection they enjoy were cut to the EU level. But there is another side to the ledger. African businesses and consumers would benefit from the cheaper goods the EU would sell. According to a simple before-and-after calculation, the abolition of tariffs on EU imports would yield gains to consumers worth $57.6m in Mauritius, $113.3m in Nigeria and $71.5m in Ghana, the UN economists reckon.

Even as it benefits consumers, cutting tariffs will deprive governments of revenue. According to Christopher Stevens and Jane Kennan, of the Institute for Development Studies at Sussex University, three-quarters of the ACP countries could lose 40% or more of the tariff revenue they collect from EU imports. Other taxes could be introduced to plug the gap, but few are as easy to collect as tariffs. Grenada, for example, brought in a value-added tax in 1986. But after failing to make it work, it eventually fell back on taxing goods coming in to port.

Still infants

The EU's critics argue that the ACP countries need to retain some shelter behind which they can rear their infant industries, as the East Asian tigers did before them. But the 1975 Lomé convention afforded them precisely that: generous access to EU markets and no obligation to open up at home. Thirty years later, the infant industries have yet to grow up. Indeed, the ACP countries' share of the EU market has dropped, from 8% in 1975 to less than 3% by the time of the Cotonou agreement.

The British government does not deny that poor countries can benefit from trade liberalisation. But it does not want to force the pace. There is some wisdom to that view. Like most reforms, cutting tariffs is unlikely to bear fruit unless national governments are committed to it.

But some worry that Britain's permissive stance might itself weaken this commitment. A liberalising government typically relies on its export lobby to stiffen its spine. Exporters know that foreign governments will not open up to them unless their government opens up at home. But since the rich world has already given ACP exporters much of what they want, they have less interest in lobbying for free trade at home. Caglar Ozden and Eric Reinhardt, of the World Bank, show that countries are more likely to open up after they are ejected from one-way preference schemes. When Chile was kicked out of America's system of preferences in 1988, for example, it cut its average tariffs from 20% to 15% in a bid to lower the cost of inputs.

However, the arguments over reciprocity miss the point. A liberal trading order rests on the principle that countries do not play favourites, even if the favouritism is reciprocated. As the founding articles of the WTO put it, “any advantage, favour, privilege or immunity” granted to one member should be extended to all. This “most-favoured nation” clause is the world trading system's most cherished principle. It is a liberal legacy far more worthy of preservation than the colonial inheritance handed down from Yaoundé to Lomé and Cotonou.

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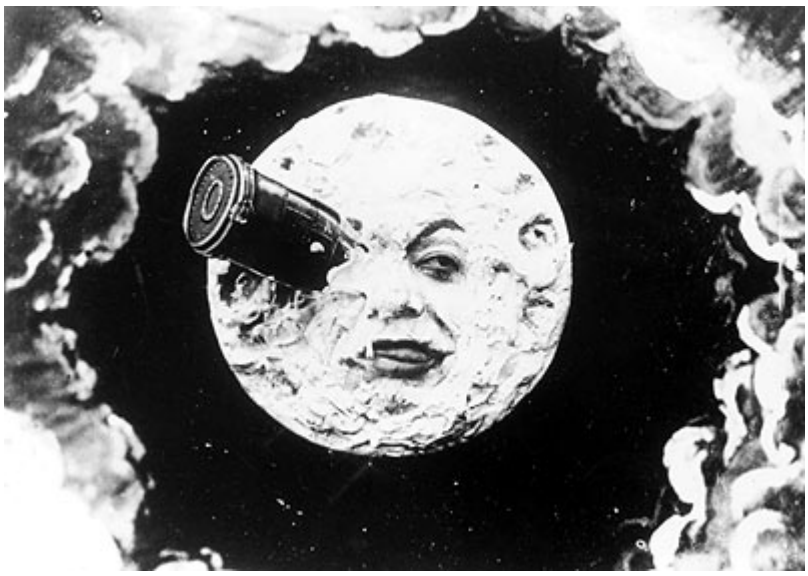
Spaceflight

Objective, moon

May 26th 2005 | WASHINGTON, DC
From The Economist print edition

Ronald Grant Archive



Why is America returning to the moon, and what does the new "vision" for NASA mean for science?

Get article background

THE name Eugene Cernan means little to most people, though space nerds may remember it. Along with more famous astronauts such as Neil Armstrong, Mr Cernan played a role in the annals of space exploration by walking on the moon. And he was the last to do so, which is fame of a sort. If George Bush gets his way, however, this claim to fame may vanish. That is because Mr Bush has a vision. He wants humans to return to the moon by 2020. The questions are, first, what for? And, second, having been given such orders, what will Mike Griffin, the new boss of America's space agency, NASA, do to execute them?

The second question seems more urgent because Mr Bush's initial goal is to reinvigorate an agency that is facing both the withdrawal of its flagships, the still-grounded space shuttles, and the failure of the international space station to deliver anything remotely approaching an interesting scientific result.

He played upon a ladle

Some of the details about how Dr Griffin proposes to execute Mr Bush's vision emerged at the International Space Development Conference held in Washington, DC, last week. For example, NASA announced a $250,000 prize for extracting oxygen from the lunar regolith.

Where the Earth has soil, other rocky bodies in the solar system have regolith. Soil is, in part, the product of biological activity (all those earthworms, and so on). Regolith is a fine powder formed by a constant rain of small meteorites that breaks up the rocks at the surface. Analysis of lunar regolith brought back by *Apollo* missions shows it contains lots of oxygen. Existing ways of extracting this oxygen, however, are too slow to be useful. So a competition called the MoonROx challenge is being mounted. The prize will go to the first person to come up with a way of quickly extracting an adequate amount of oxygen from simulated lunar regolith (volcanic ash is being used as a stand-in).

Oxygen, though, is only the beginning, according to Paul Spudis, a planetary scientist at Johns Hopkins University who was a member of the president's vision commission (yes, there really was one). As he puts it, a cubic metre of regolith contains, besides the necessary oxygen, enough hydrogen, carbon, nitrogen, potassium and other trace elements to make two cheese sandwiches on rye, two colas and two large plums. Despite mythology to the contrary, though, the moon isn't actually made of cheese. So extracting this bounty is another matter. Whether the moon's natural resources can be used profitably remains, says Dr Spudis with nice understatement, a “key question”.

Those resources consist of a lot of rock, a lot of sunlight that could be used to generate electricity to process the rock and, at least in the dreams of many lunar scientists, some 20 billion tonnes of frozen water believed to lie at the bottoms of craters near the poles, where it is sheltered from the evaporative effects of sunlight. In addition to these goodies, the solar wind carries light elements such as helium to the moon's surface and leaves them there. Some visionaries think that this helium might find a market on Earth, though its main use would be in fusion reactors that do not yet exist. And there are also likely to be deposits of platinum and other valuable metals contained in asteroids that have crashed into the moon.

The least certain item on this list is the water. Evidence, but not proof, of its existence was found by two earlier missions. So the *Lunar Reconnaissance Orbiter* that NASA plans to launch in 2008 will search more thoroughly, and will also make detailed maps that should help to find good spots to land. Dr Spudis, though, already has a favourite. A crater at the south pole called Shackleton has a rim that is bathed in sunlight for more than three-quarters of the time (as opposed to half the time for most of the moon's surface). That makes it easier to generate electricity. The bottom of the crater, by contrast, is perpetually dark and, with luck, ice-bound.

It all sounds jolly ambitious. But establishing a human presence on the moon itself is not, actually, Mr Bush's ultimate ambition. He wants humans to explore the cosmos—or, at least, Mars. The moon is merely a stepping-stone; a place to teach people about living on other worlds. New survival technologies and systems developed on the moon will then be employed on Mars. These include better collaboration between people and robots, durable technologies for survival in hostile environments, better “closed-loop” recycling systems for the re-use of resources, and improved telemedicine. Practising on the moon makes sense because it is only three days travel from Earth.

According to Rick Tumlinson, president of the Space Frontier Foundation, a space advocacy group, this difference of emphasis between going to the moon for its own sake, and using it as a stepping-stone, illustrates a wider problem for NASA, which is that people disagree about what the vision really means. Since it was announced, says Mr Tumlinson, the vision has been an “all-spin zone”, with everyone spinning his own version. To some, it means mining the moon for helium or platinum. To others it is about building a lunar observatory. A third group wants to collect solar power and beam it to Earth. To the most ambitious, such as Mr Bush himself, it means that humanity is going to explore the rest of the solar system in person. And Mr Tumlinson's particular spin? “It's about permanence. We go to stay. It's about settlement and changing our culture. What you don't do is *Apollo* on steroids.”

Dr Griffin, therefore, has the difficult job of charting a course among these competing mini-visions. For, while Mr Bush and his vision are obviously going to be in the driving seat for now, that will not always be true. As Admiral Craig Steidle, the associate administrator of NASA's office of exploration systems, observes, the most difficult aspect of the vision is “sustainability”. By this he means keeping it intact through successive Congresses, administrations and NASA chiefs, who may have different visions, and also in the face of an increasingly vocal lobby that feels the private sector is being overlooked, visionwise.

A little science on the side, sir?

Perhaps, though, whether the vision can be realised or not is beside the point. The actual point is to give a drifting agency some focus, Mr Bush's initial goal. This re-focusing will have profound consequences for the agency's scientific mission—which some people feel is what it should be concentrating on, and isn't. Admiral Steidle told the meeting that the vision was “first and foremost” about advancing science. That, though, looks like disingenuous spin.

NASA will undoubtedly need science to achieve the vision, whatever it turns out to be. And there is undoubtedly lots of interesting science to be done on the moon. But if scientists were running the show, and acquisition of knowledge were NASA's top priority, they would be unlikely to spend $64 billion over

the next 15 years on a manned trip to the moon.

Instead, scientists would prefer to build space telescopes to probe the origins of the universe and search for Earth-like planets around other stars, launch an unmanned mission to Jupiter's fascinating moon Europa, and fund the *Glory* mission, which is designed to answer crucial questions about the Earth's climate. And they would still have a lot of money left over.

But lunar science, and lots of it, is what they are going to get. For the real point of the vision, whatever form it takes in detail, is to put human exploration first and scientific discovery second. And that truly is back to the future for NASA, for the *Apollo* project had exactly the same priorities. Harrison Schmitt, Eugene Cernan's even more forgotten companion on the last *Apollo* mission, was the first and only scientist to make the trip. Even in the agency's heyday, NASA's scientists came second.

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Going to the moon

Paper spacecraft

May 26th 2005 | WASHINGTON, DC
From The Economist print edition

NASA's plans for lunar travel are already being pieced together

Get article background

AMERICA'S space agency has a legendary love of paperwork. Consequently, NASA has published over 6,000 pages about the contracts for its Crew Exploration Vehicle (CEV), the craft that will put people into orbit around Earth, allowing them to carry out tasks such as visiting the international space station after the shuttle fleet is retired in 2010. But the CEV is also central to the agency's new vision of putting people back on the moon (see article).

Frank Sietzen, a journalist and co-author of “New Moon Rising”, a chronicle of the development of the new NASA vision, has spent the better part of the past six months leafing through these contracts in order to divine the agency's plans. He says that because the CEV must be compatible with other components of the vision, the contracts give details of how NASA is planning to explore the moon and Mars.

According to Mr Sietzen, the new moonships will have three components that will be launched separately and then bolted together in orbit—unlike NASA's previous moon rocket, the Saturn 5, in which everything went up at once. One component will be the CEV. The second will be an Earth-departure stage—a rocket that provides the oomph needed to push the ship on its way to the moon. The third will be the “lunar surface access module”, or lunar lander, to the man in the street.

The decision to assemble the new moonships in orbit lowers the cost of developing the rocket needed to get them off the Earth's surface. Mr Sietzen predicts that in about a month's time, when NASA picks two bidders for a CEV, it will announce what this rocket will be—and that it will be based on the technology now used to launch the shuttles.

It is also, he adds, possible to work out from the contracts what the masses of the different components will be. These suggest that four astronauts will travel to the moon and six astronauts to Mars, and that the access module will sometimes fly as an unmanned truck carrying cargo to the moon's surface.

He predicts that there will be three phases of lunar exploration. Initial landings of two to three days will pick up where *Apollo* left off. Subsequent trips to rougher terrain will last for a week to ten days. And eventually a base camp will be established at one of the poles. This will be occupied for periods ranging from 90 days to a year, and will lead to a permanent manned presence that would act as a prototype Mars base.

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About sponsorship

Psychopathy

Original sinners?

May 26th 2005
From The Economist print edition

Evidence that psychopaths are born, not made

RESEARCHERS at the Institute of Psychiatry, in London, are not shy about tackling controversial topics. One of them, Terrie Moffitt, was responsible for studies that showed how different versions of the gene for one of the brain's enzymes resulted in different predispositions to criminal activity. Another, Robert Plomin, found the first plausible candidate for a gene that boosts intelligence. Now, Dr Moffitt and Dr Plomin have been helping two other researchers, Essi Viding and James Blair, with an equally high-profile study—one which asks whether psychopaths are born that way, or are made so by their upbringings.

That, of course, is rather a crude way of putting it. After decades of debate, biologists have come to understand what was blindingly obvious to most laymen—which is that rather than being shaped by nature or nurture, most behavioural traits are the result of an interaction between the two. Nevertheless, one or the other can still be the dominant factor. And the study in question, to be published in June's edition of the *Journal of Child Psychology and Psychiatry*, suggests that in the case of psychopathy, the genetic side is very important indeed.

The four researchers have drawn their conclusion from a study of twins. The twins in question are on the books of a long-term project known as the Twins Early Development Study (TEDS), which has been following several thousand twins since their births in 1994 and 1995. Among other things, many of the twins in TEDS have been assessed both for a tendency to bad behaviour (“conduct disorder”, in the argot of the field) and for the display of what are referred to as callous-unemotional traits, such as a lack of feelings of guilt after doing something wrong, or not having at least one good friend. In adults, callous and unemotional traits are symptoms of psychopathy, and those who display such traits in childhood frequently keep them into adult life. The assessments were done by the children's teachers, whom years of experience have shown are more objective and accurate than a child's parents.

As is well known, twins come in two varieties: fraternal, in which the individuals have half their genes in common, just like ordinary siblings, and identical, in which the individuals have all their genes in common. This means that behavioural traits with a large genetic component are more likely to be shared by identical twins than fraternal twins. Conversely, those traits with a large environmental component will be shared by identical and fraternal twins in equal measure. Applying appropriate statistical techniques to the actual amount of shared behaviour observed allows the relative contributions of genes and environment to be worked out.

Based on the teachers' assessments, the researchers identified the naughtiest 10% of the individuals in their sample—in other words those with severe conduct disorder. They then subdivided these children into those with psychopathic traits and those without and asked, in each case, whether an individual's twin showed bad behaviour, psychopathy, or both.

Their analysis showed that bad behaviour without psychopathy has relatively little genetic component—less than a third. By contrast, four-fifths of the difference in behaviour between the general population and children with psychopathic traits seems to lie in the genes.

All of this raises interesting questions. On a practical level it suggests that bad behaviour needs to be handled differently in different children, and will be much harder to eradicate if associated with psychopathic traits (though that does not mean that parents and teachers should not try). On an intellectual level, it asks about the origins of psychopathy.

Though the genes in question have yet to be identified, this result suggests they are too abundant to be there by chance—in other words they are being kept in the population by natural selection because

psychopathic behaviour confers a selective advantage. If it does, such an advantage probably pertains only when psychopaths are in the minority (a state of affairs known to biologists as a balanced polymorphism). But it does mean that far from being an aberrant behaviour, psychopathy may be disturbingly normal.

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Evolution

Not spineless

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Sex in ancient seas

THE battle of the sexes is, presumably, as old as sex itself. But evidence for its past engagements is sparse, as behaviour does not fossilise. But the battle that takes place within a sex for access to mates often results in physical evidence—deer antlers, for example, or peacocks' tails. In a paper just published in *Biology Letters*, Robert Knell of Queen Mary College, London, and Richard Fortey, of that city's Natural History Museum, suggest that this is the explanation for one of palaeontology's more extravagant features, trilobite spines.

Derek Siveter, Oxford University Museum of Natural History

Mine's bigger than yours

Trilobites dominated the seabed for almost 300m years, before their extinction 251m years ago at the end of the Permian period. That length of time produced many varieties, of which one group is characterised by weird and wonderful spines.

The purpose of these spines is much debated, but Dr Knell and Dr Fortey are pretty sure they are sexually selected. Animals have spines for many reasons, including protection from predators, streamlining, camouflage and for carrying sense organs. But trilobite spines seem too eccentric for any of these. They are also more pronounced in adults than in juveniles, and in some rocks are the main distinguishing feature between two “species” that occur in equal numbers and are, in the opinion of the researchers, actually two sexes of the same species. Whether the spines were for fighting, like antlers, or attracting the ladies, like flashy tails, remains in doubt.

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Mao Zedong

Homo sanguinarius

May 26th 2005
From The Economist print edition

Alamy

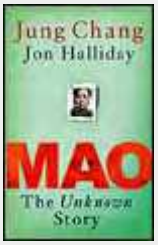
A major new biography-more than a decade in the making-portrays Mao as having been even more ruthless and bloody than was previously believed

IN HIS recent book on Mao Zedong, Philip Short suggested that for all the suffering Mao inflicted on China ("the deaths of more of his own people than any other leader in history"), he was never as personally culpable as Stalin and Hitler. A new study, by Jung Chang and her husband Jon Halliday, reaches a different conclusion: Mao, they insist, was a megalomaniac of unremitting evil. Mr Short says that, apart from one period in the 1930s, Mao was not directly involved in executing opponents. The new book insists that not only did Mao arrange their deaths himself, he delighted in having them die in singularly unpleasant ways.

Mr Short and his fellow Mao biographers are no apologists, but Ms Chang and Mr Halliday are uniquely relentless iconoclasts. The "Unknown Story" of their title goes well beyond the kind of anecdotal impressions given in 1994 by Mao's doctor Li Zhisui in his vivid (though unsurprising) book, "The Private Life of Chairman Mao". Ms Chang's and Mr Halliday's informants include several Mao intimates, but some of the most revealing details come from non-Chinese sources, including the archives of the former Soviet Union, which played such an important role in the rise of the Chinese Communist Party.

The book challenges much of the received wisdom on Mao and the party, and is particularly detailed on its early days. Mao, it seems, was utterly contemptuous of the downtrodden masses whose saviour the party proclaimed itself to be. He had no interest in co-operating with the ruling Nationalist Party, the Kuomintang (KMT), in the war against the Japanese, leaving virtually all the actual fighting to the KMT while he focused on building his party. Generalissimo Chiang Kai-shek, the KMT leader, made no more than a token pretence at trying to stop the communists from moving closer to Soviet-controlled territory, believing that this would please Russian leaders. In return, Chiang wanted the Russians to return his son, Chiang Ching-kuo, whom they were effectively holding hostage. As for who best embodied the spirit of the Long March, it certainly wasn't Mao, who hardly marched at all; he was carried most of the way in a litter.

Mao: The Unknown Story
By Jung Chang and Jon Halliday



Jonathan Cape; 814 pages; £25. To be published in America by Knopf in October

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Another incident that Ms Chang and Mr Halliday cast in a whole new light is the attempted kidnapping of Chiang in 1936. Usually portrayed as a move to force him to co-operate with the communists, it was, the authors say, really no more than an abortive coup by the power-hungry Chang Hsueh-Liang (the “Young Marshal”) who wanted to supplant the Generalissimo. Mao encouraged the Young Marshal to kill Chiang. But Moscow put its foot down, fearing that this might weaken the KMT, help Japan's conquest of China and enable Japan to turn on the Soviet Union. It was Chiang, not Mao, who wanted a united front against Japan. And even when Japan perpetrated an infamous atrocity in China, the Nanjing massacre of 1937-38, Mao showed no interest either then or later. Having assumed control, he is said to have told some Japanese visitors that the communists “would still be in the mountains today” had it not been for the Japanese invasion.

Mao calculated that if the Japanese defeated Chiang, the Russians would have no choice but to intervene. “His plan was to ride on the coat-tails of the Japanese to expand Red territory”, the authors argue. After the Nazi-Soviet pact of 1939, Mao feared the Soviets might strike a similar deal with Japan. To protect his forces, he mounted a “long, close and little-known collaboration” with Japanese intelligence to help them undermine Chiang.

That Mao gained power at all in 1949 was not thanks to an uprising—there was no spontaneous pro-communist uprising anywhere in China, say the authors—but to foreign powers: the Russians, who handed the communists the key industrial base of Manchuria, liberated by the Russians from the Japanese, and the Americans, who gave the communists crucial breathing space by ordering Chiang to stop fighting them there for four months. The Russians secretly handed the communists tens of thousands of Japanese POWs, to train Mao's army and create an air force for him. Some Japanese troops even fought for him, the authors say.

Once in power, Mao schemed to take over the world. He backed North Korea's invasion of the south, hoping to face down America in a protracted war that would leave hundreds of thousands of American dead. “We will set up the Earth Control Committee, and make a uniform plan for the Earth”, he is quoted as telling provincial leaders in 1958. He feigned assaults on Taiwan in order to encourage the Russians, who did not want to be sucked into a nuclear war on China's behalf, to hand over nuclear weapons technology to China and thus enable China to take care of itself. He encouraged the Vietnamese to escalate war with America in order to draw in American troops, so that if the United States attacked China's nuclear facilities, China could easily retaliate.

All of this is written with the same deft hand that enlivened Ms Chang's 1991 memoir, “Wild Swans”. But how much of it is true? Until China abandons its (now very low-key) cult of Mao, and allows unfettered access to archives and to individuals who knew him, our understanding of his highly secretive world will inevitably be distorted. The authors may be right that Mao built his political machine “not through inspiration or magnetism, but fundamentally through terror”. And they may be right that Chiang Kai-shek was not as ruthless. But by filtering 20th-century China through the life of a single despot without due attention being paid to the iniquities of his opponents, the book feels too much like the story of a lone ogre, and not enough like a complex and dispassionate history.

By Jung Chang and Jon Halliday.
Jonathan Cape; 814 pages; £25. To be published in America by Knopf in October

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English memoirs

Woman of substance

May 26th 2005
From The Economist print edition

A NEW book by Sybille Bedford, now aged 94 and a writer of singular distinction, over ten years after her last one is an unusual joy. Her memoirs, or “fragments of autobiography” as she describes them, inevitably cover much of the same ground as her semi-autobiographical novels. Musing on the difficulties that this presents, she fears boring with repetition those who remember, and confusing with elliptical reference those who do not. Well, boring she isn't; a little confusing maybe.

For her admirers, the stories of her life and family and loves and friends in the years between the wars, in Germany, Italy, England and the south of France, are so odd or funny or sad that they mostly bear retelling. And they are not just retold: gaps are filled in, shadowy characters brought to life, new episodes introduced. Her memory is peerless; if names are occasionally forgotten, menus seldom are.

For a reader coming fresh to her work, this may all be slightly baffling. “What I am attempting now, is a zigzag course from middle to beginning, back to middle, forward to a kind of judgment,” she explains alarmingly. The digressions are plentiful and lengthy. Somewhere there is a sequence, but not necessarily chronological.

Please don't be put off. Towards the end, as the pace quickens, the narrative grows clearer. And, throughout, there are pleasures in plenty. She is a great and original storyteller. The tales of her shuttlecock, education-free childhood, her bizarre, tragic mother, and the entanglements of herself and her friends make for riveting reading; the delight is in the detail. And there are many splendid set-pieces, such as the farcical story of her marriage to acquire British citizenship when war was looming and she, partly Jewish, still had a German passport. Her devoted friend, Aldous Huxley's wife Maria, declared that “we must get one of our bugger friends to marry Sybille”, and they did.

One of the things that comes over is her extraordinary gift for friendship, and not just with the beautiful people who helped her to “eat on trellised terraces, drink wine under summer leaves, to hear the song of tree-frog and cicada, to fall in love.” Look, for instance, at the friend, hard-up herself, who gave her the money to spend three years working on her wonderful Mexican book “A Visit to Don Otavio”. She loved, and was well loved.

She started late as a published author. Complaining how dreadfully hard she has always found it to put words on paper, Ms Bedford looks back on the desultory years of false starts and failures, of self-confessed hedonism, sloth and doubt. And nowadays, though the alternatives to work may not be as tempting as they once were, eye problems and arthritis are tribulations. She finds herself obliged to eschew notes and research and reference books. So much the better, probably.

Her memoirs, handwritten in a scrawl that only one friend could decipher and transcribe, are heavily packed with italics and exclamation marks and parentheses. Always on guard against “a longueur or a limping cadence”, she often writes as if she were telling her strange story out loud. She reveals that unpublished novels, written when she was very young, may exist somewhere in a Texas archive: useful one day for thesis or biography hunters, but not, if her self-mocking summaries are anything to go by, yet more treasures-in-waiting. And that, if true, is a shame.

Quicksands: A Memoir.
By Sybille Bedford.

Quicksands: A Memoir
By Sybille Bedford

Counterpoint Press; 224 pages; $24.95.
Hamish Hamilton; £17.99

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Warnings to parents

Watch TV

May 26th 2005
From The Economist print edition

YOUNG people waste time on computer games that should be spent in reading mind-improving books. These computer games are complicated and demanding, and require extended concentration. Many parents unthinkingly endorse the first assertion, yet would find it hard to contest the second.

That illogicality intrigues Steven Johnson, a prolific writer. Popular culture, he argues, enriches our minds in ways that are not yet properly prized. It is a mistake, for example, to judge computer games by their banal plotlines. Their real value lies in the problem-solving skills they build in our brains.

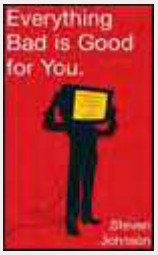
Equally, the densely plotted script of modern television comedy demands far more emotional intelligence than did the crudely signposted products of the past. He concedes that there is a lot of bad mass entertainment, but that it is not part of an inexorable process of dumbing down. Today's worst programmes should be measured not against the best products of yesteryear but the worst: so slackly plotted, vapid and slow-moving that they are now almost unwatchable. “Joe Millionaire”, an excruciating reality TV show, should be rightly compared not with the timeless genius of “M*A*S*H”, but with the deservedly forgotten “The Price is Right” or “Webster”.

Despite its occasionally pretentious tone, and its unfortunate narrow focus on America, this punchy, thought-provoking book is a welcome antidote to the pessimism and hand-wringing of those who see only decadence and doom in popular culture. In fact, technological progress and market forces are making us cleverer, he argues—especially the middling intelligent, who are exposed to challenging, stimulating culture they would never have encountered before.

That is because the best profits lie in creating something that people watch again and again. This encourages producers to cram in as much nuance, complexity and sophistication as they can, to make each repeat viewing rewarding for the customer. Furthermore, modern popular culture is hugely interactive, with blogs, chatrooms and specialist websites devoted to discussion of games, television shows and other phenomena. These create a great incentive to write with wit, punch and sparkle—talents which in past years would mostly have lain buried in their authors' private correspondence.

By Steven Johnson.
Riverhead; 224 pages; $23.95.
Penguin/Allen Lane; £10

Everything Bad is Good for You: How Today's Popular Culture is Actually Making Us Smarter
By Steven Johnson



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The Spanish Armada

Evermore in the main

May 26th 2005
From The Economist print edition

IN 1959, Garrett Mattingly, a professor at Columbia University, wrote a landmark account of the Spanish Armada of 1588. No one, until now, has supplanted it. Partly this is because so little in the perception of Tudor history changed for the next 30 years. But then, seismic shifts began. Queen Elizabeth ceased to be seen as the ruler of all she surveyed. Her grasp of power, and even her competence, started to be challenged, while Protestantism is now known to have been less popular than previously thought. Foreign policy was rarely dictated by the Crown; much of it emerged from the private initiatives of merchants and adventurers. Elizabethan politics were less ideological, the queen less committed to a European Protestant cause, than Mattingly's cold-war generation had imagined.

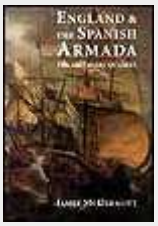
Neil Hanson and James McDermott have each produced a major book. Both were published in Britain first, Mr Hanson's in 2003, and are now out in America. Which is preferable depends on one's perspective. Mr McDermott is an expert on privateering and naval warfare. His focus is on commercial and maritime history. Mr Hanson, a popular writer, sees the Armada as an epic drama in which the fate of nations hung in the balance. Both draw on primary documents. Both appreciate the finer points of ship construction, seamanship and gun technology. Neither quite has Mattingly's panache, but both equal him in depth of understanding.

And yet the books are very different. Whereas Mr McDermott is reluctant to venture beyond his strengths on the English side, Mr Hanson looks at both the Spanish and English stories, rounding out his characters, which become real people and not just names on the page. Mr Hanson relies more on secondary authorities and is not free of factual error. But his mistakes are venial, outweighed by his vivid, visceral prose. Both authors argue that England had a narrow escape, but whereas Mr McDermott avoids praise or blame, Mr Hanson is quick to pass judgment. He tells us that Elizabeth was haughty, mean, ungrateful and insensitive, her conduct during the campaign and its aftermath a stain on her character that will never be erased.

And it's true. Elizabeth had no long-term aims in foreign policy beyond her own survival. Unless her safety was threatened, she cared more for booty and fast money. At the climax of the campaign she went off on a royal progress to enjoy herself and avoid paying her debts. Despite her much vaunted rhetoric, she did nothing for the 12,000-or-so ordinary seamen and volunteers who saved her throne, letting half of them die of disease or starvation as they limped home after the battle lacking food or pay. Her most famous speech, delivered at Tilbury to her land forces, was a fraud.

The Armada had already been scattered when Elizabeth appeared, and what she said bore little resemblance to what was recorded for posterity. If the English were relatively non-ideological, this wasn't true of their opponents. The Spanish fleet was also better equipped, but the original plan to make a landing in Ireland and construct a base to be used for the invasion of England was too expensive. Instead, the Armada was to rendezvous off Dunkirk with the Duke of Parma's forces, and escort some 26,000 crack troops from the Spanish Army of Flanders in flat-bottomed barges across the English Channel to a landing place in Kent. The threat to England was that of a dual-pronged attack from the troops in the barges and from the army of 18,000 soldiers who had been borne there by the main Spanish fleet.

England & the Spanish Armada: The Necessary Quarrel
By James McDermott



Yale University Press; 411 pages; $40 and £25

Buy it at
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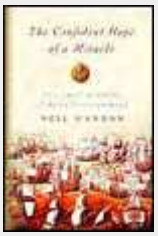
The Confident Hope of a Miracle: The True History of the Spanish Armada
By Neil Hanson



Knopf; 489 pages; $35. Doubleday; £20

Buy it at
Amazon.com
Amazon.co.uk

But the Spanish king, Philip II, refused to factor in the logistics of the rendezvous. The tides around Dunkirk were treacherous, the banks and shoals ideally suited to hit-and-run raids by Dutch guerrillas. A miracle was needed, provoking Parma to remark, “God will tire of working miracles for us.” His comment was prophetic, but in vain. Philip, by 1588, had a messianic vision of his place in the Counter-Reformation, and no one could gainsay him.

Mr McDermott concludes that England's national identity was shaped more by the Armada campaign than by an indigenous Protestant culture. He is right, of course, but the point seems lacklustre. He glosses over the remainder of the war, which dragged on for 14 more years. In contrast, Mr Hanson's finale is a brilliant summary of the endgame, as vivid and passionate as everything that has gone before. His book is certainly a worthy replacement for Mattingly's.

England & the Spanish Armada: The Necessary Quarrel.
By James McDermott.
Yale University Press; 411 pages; $40 and £25

By Neil Hanson.
Knopf; 489 pages; $35.
Doubleday; £20

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Horse racing

Turf accounting

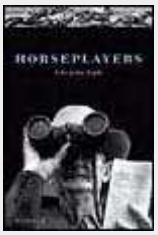
May 26th 2005
From The Economist print edition

FANCY a flutter? You are not alone. Nearly $16 billion is bet on thoroughbred racing in North America each year. Yet fewer than 5% of bettors turn in a consistent profit. In this thrilling gallop through the world of horseracing and gambling, Ted McClelland describes a year spent betting his publisher's advance to find out whether it was possible to make a living from the sport of kings.

The author spends most of his time at two racetracks in Illinois: pastoral Arlington, which models itself on the great English tracks of Ascot, Epsom and Newmarket, and Hawthorne, “a cesspool” of cigarette smoke, horse manure and shredded tickets.

Pitching himself headfirst into the gambling world, he befriends various track regulars, all of whom have a “foolproof” handicapping system. He discovers that horses are no more than betting units, “like living roulette wheels”, and that odds are not set by the house, as in a casino, but by the amount bet on each animal. Such “pari-mutuel” wagering means the more money bet, the lower the odds become.

Horseplayers: Life at the Track
By Ted McClelland



Chicago Review Press; 263 pages; $24.95

Buy it at
Amazon.com
Amazon.co.uk

From his first, and lucky, win on a trifecta (where a gambler must pick the top three finishers in a race), Mr McClelland is hooked. He learns the language of the track. “Chalks” are the favourite and “suckers” those horses that repeatedly finish second, leading bettors to believe they are due for a win. He dreams of a “signer” (a win so big it must be reported to the IRS), experiences several “schneids” (losing streaks), and is amused by “stoopers” (people who look for winning tickets that have been thrown out by mistake). This is not as crazy as it sounds; in one recent year, Hawthorne kept $578,206 in uncashed tickets.

Ultimately, the author realises that the bettor's best skill is a sense of what the odds should be. “Now, at last, I'd discovered the dark heart and soul of the game: it wasn't about predicting the behaviour of horses. It was about predicting the behaviour of other gamblers and exploiting their mistakes”, he writes. Furthermore, he discovers that a gambler can beat the races, but only just. Over a seven-week period Mr McClelland was up by $150. He had spent four hours a day gambling, three handicapping, two commuting and one keeping records. He had made a 7% profit on his money, outperforming several Wall Street fund managers. But to make an annual income of, say, $50,000, he would have to gamble $700,000. And betting that much, thanks to the pari-mutuel system, would reduce the odds. As the old adage goes: “You can make a life at the track, but you can't make a living.”

By Ted McClelland.
Chicago Review Press; 263 pages; $24.95

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About sponsorship

Edward Ruscha, American artist

Write-on man

May 26th 2005 | LOS ANGELES
From The Economist print edition

Edward Ruscha has a way with words—and an ever-growing influence

CALIFORNIA'S biggest urban sprawl is often described as a city of movement rather than monuments, one defined by car culture rather than great architecture or beauty, but Edward Ruscha has found it a source of inspiration for more than 40 years. “Monet had the Seine, I had Route 66,” he says of the interstate highway that led him west from an Oklahoma boyhood to art school in Los Angeles in the late 1950s and whose roadside imagery appears in much of his work. At the time, he seemed to be heading away from the rest of the American art world; the New York school and abstract painting were then at their height. But Mr Ruscha (pronounced Rooshay) felt he had nothing to add to Abstract Expressionism and studied graphic art at a school sponsored by Disney. “It was an enormous freedom to be pre-meditated about my art.”

Today the 67-year-old artist, who refuses to be typecast as either pop or conceptual, has become an unlikely art-world superstar. Long marginalised by the New York establishment, his work has featured in two international touring shows this year. Next month, his work will be seen both in Venice and in London. Mr Ruscha is now regarded, along with Andy Warhol, Donald Judd and Bruce Nauman, as one of the four most influential American artists to have emerged in the 1960s. But the artist remains detached about his current fame. In a recent interview at his LA studio (a vast warehouse space filled with paintings, dictionaries, record collections, and piles of newspaper and magazine clippings), he was as happy to chat about restoring his model-T Ford as he was about his work for upcoming shows.

This homely, laid-back attitude is a central part of Mr Ruscha's art. He is equally comfortable working with different media, from painting to print, photography to drawing. But he returns to two central themes: the faded glamour of the Californian dream and the idea that words can be still-lifes. His art mixes Californian sunshine with *film noir*, and it records in a deadpan way the ubiquitous architecture of this strange paradise. He photographed 26 petrol stations he passed along Route 66 on his way to LA, every building on the Sunset Strip, and many swimming pools, palm trees and car parks. In these books of photographs and other work, he catalogues an American material culture that is so pervasive as to be almost invisible. And he gives everyday places the real Hollywood treatment, presenting them in his paintings in dramatically lit Technicolor.

Mr Ruscha's love of the commonplace is reflected also in his distinctive paintings and drawings of ordinary words and phrases. His painting “Hollywood is a verb” parodies the fleeting nature of LA's movie culture by making it a permanent work of art. On the one hand, this phrase looks like a book or film title; on the other, it sounds like a slogan. Like all of Mr Ruscha's text pieces, this one conjures up a range of possibilities in the mind, eye and ear of the viewer. A word as a work of art, rather than just something to be read, is both strange and familiar—at times even funny—and therein lies the allure. “I am instinctively drawn in my DNA to words”, says Mr Ruscha. They might grab him while he is dreaming, watching a film, reading the newspapers, or listening to the radio (he does not watch television). He sees words as his still-lifes, as three-dimensional objects, and responds to their look and sound before considering their meaning. “Painting a picture of a word is my way of etching it in stone, of making it absolutely official, almost like an epitaph.”

In some cases there is more to it. One of his most successful recent works, “Words without thoughts”, plays with both verbal and visual meanings. This installation in a Miami library consists of a series of paintings of words from the phrase in Shakespeare's Hamlet: “Words without thoughts never to heaven go”. Individual paintings of each word are displayed around the library's rotunda so that viewers encounter them randomly. The phrase has a profound resonance, reminding viewers of the power of well-chosen words at a time when talk is cheap. In a world where the media are awash in spin, where advertising, political sound-bites and reality television provide ever more invidious forms of communication, Mr Ruscha's art—his words with thought—provides an antidote. But he refuses to be

drawn on politics or the specific meanings of his work. Mr Ruscha is not reacting to anything tangible, rather he is picking up fragments of meaning from the ether, treating words like a jazz player riffing on a common melody, revealing the rich tonality of something we thought we knew.

Edward Ruscha's work will be shown in the Summer Exhibition at the Royal Academy, London, from June 7th-August 15th. He will also represent America at the Venice Biennale from June 12th-November 6th

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About sponsorship

Obituary

Albert Marshall

May 26th 2005
From The Economist print edition

Topfoto-National

Albert ("Smiler") Marshall, the last British cavalryman of the first world war, died on May 16th, aged 108

WHEN Albert Marshall was asked about the first world war, he sometimes thought it odd that so much was made of the Somme. For him the worst moment came the next year, in 1917. He was 20, and serving with the Essex Yeomanry in his third year at the front. A new regiment, the Oxfordshire and Buckinghamshire Light Infantry, had just come out from England to join up with his. The men were mustard-keen, in fresh-pressed uniforms that had not yet seen a shell-hole or a trench.

Eighty years later, Mr Marshall found it hard to remember whether the Ox and Bucks was sent "over the top" in the morning or the evening. What he never forgot was going into no-man's-land a few hours later, following an officer with a white flag, to bury their bodies. There were hundreds of them; all but a handful had been killed immediately. The mud was too compacted to dig down far. As his unit marched back, he trod under his boots the corpses of the men with whom, that morning, he had eaten breakfast.

Very few men—perhaps a dozen now in Britain—survive from the conflict that marked modern history, and seared the modern conscience, more than any other. Mr Marshall was the last representative of perhaps the most quixotic part of that doomed enterprise, the cavalry units of the Western Front. Once he had joined up, enthusiastically lying that he was older than 17, he had his picture taken in uniform, proudly astride his horse. He had ridden since he was five, starting on a goat for a tuppenny dare, and was a natural in the saddle. In 1915, no boy looked happier to have left the Wivenhoe shipyards for adventure in the fields of Flanders.

Some commanding generals, Haig among them, believed in 1914 that cavalry would win the war. A mounted charge, with swords or lances, was swift and flexible and had shock value. Even in later years, as the war on the Western Front bogged down in mud and barbed wire, horses seemed to hold the key to making it mobile again. A quick cavalry break through entrenched infantry lines could shatter the stalemate, take the fighting on to new ground, and move it forward.

Just once or twice, Mr Marshall lived that dream. At Cambrai in 1917 he met German infantry advancing:

“We drew our swords and cut them down. It was cut and thrust at the gallop. They stood no chance.” For a moment then, his blade gleaming, he was in a direct line that went back to the squadrons of Xenophon. A few days after the burying expedition, when German foot-soldiers surprised the Essex as they saddled up, he watched in amazement as the Bengal Lancers leapt on to their horses bareback, plucked their lances out of the ground and routed the enemy. It was “a colossal sight”.

For much of the time, however, horses did not help in close engagements. High-explosive shells terrified them, and chlorine gas blinded them as it blinded men. (Mr Marshall fought at Loos, where 140 tons of gas, released by the British over the battlefield, blew back into their own trenches.) Horses also made large targets, especially when corralled in numbers behind the lines, and soon weakened when they could not be cared for. Of 800,000 horses used on the Western Front, mostly for transport and pulling artillery, only about half survived.

In winter, when fighting eased, the cavalry's job was to hold the front line: “three lines of trenches, mud and devastation”, as Mr Marshall remembered it. On one spell of duty, out in the middle of no-man's-land, an exploding shrapnel shell half-buried him in mud and smothered two of his friends. Unable to move, he sang hymns to them until he was pulled out. They were past rescuing.

A shared cigarette

When Mr Marshall turned 100, historians and documentary-makers began to show up at his farm cottage in Surrey—where he had lived since 1940, working as a handyman on a nearby estate—to ask him for his memories. He had never spoken about the war before, nor revisited the battlefields. Remembrance was sharp enough.

Under questioning, he revealed a slyly insubordinate streak. He used to trade cigarettes for other men's rum rations and, when the orderly officer's back was turned, quickly whip off puttee, boot and sock to rub the rum between his toes. As a result, while other men's feet were slowly rotting from trench foot or gangrene, “[mine] were as good as anything”. He recalled, too, offering a drag on a cigarette to a soldier who had been tied to the wheel of a cart, without food or water, for some misdemeanour. Years later they met by chance in Oxford Street, and shared memories of how good that smoke had been.

His nickname, “Smiler”, stemmed from an incident, soon after joining up, when he had thrown a snowball at a drill-sergeant. (“Hey, Smiler, I'm talking to you!” the sergeant roared.) He sang on the boat that took him to France, sang as he returned, and sang when he was there: “If the sergeant's pinched your rum, never mind”, and “Nearer my God to Thee”. His smile was one of the last of that crowd of sunny recruits who look out of their fading photographs in blithe and cocky ignorance of the horror they were to see. No faces are more haunting.

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Overview

May 26th 2005
From The Economist print edition

The **bond-market** "conundrum" that has troubled America's central bankers has yet to be solved. Despite rising short-term interest rates and strengthening inflation, long-term rates remain low. Yields on ten-year Treasury bonds settled at just 4.05% on May 24th.

America's housing market continues to soar. Sales of existing houses rose by 4.5% in April to reach a new record: an annual rate of 7.18m house sales. The price of a median single-family house rose by 15% in the year to April, the fastest pace since the late 1970s. Prices of condominiums rose even faster. Sales of new homes rose by 0.25% in April, also setting a new record, though March's figures were revised downwards.

Durable goods orders in **America** suggested renewed strength in the manufacturing sector. Orders rose by 1.9% in April, after falling in each of the three previous months.

Thanks to weak consumer spending, **France's** economy slowed unexpectedly in the first three months of the year. Output rose at an annualised rate of 0.8% in the first quarter. In the year to the first quarter, the economy grew by 1.7%, down from 2.1% in 2004.

Spain's economy is showing signs of resilience. Output grew by 3.3% in the year to the first quarter, up from 2.7% in 2004.

Germany's ZEW Index of Economic Sentiment continued to slide in May. At 13.9, it is now well below the historical average of 34.2, suggesting businessmen are feeling ever gloomier.

The value of retail sales in **Italy** rose by 0.2% in March, up from 0.1% in February.

Producer prices accelerated in **Sweden**, rising by 2.7% in the year to April, up from 2.5% in the year to March.

Inflation inched up slightly in **Canada**. Consumer prices rose by 2.4% in the year to April, up from 2.3% in the year to March. But this was not enough to trouble the Bank of Canada, which kept short-term interest rates steady at 2.5%.

Japan's custom-cleared trade surplus narrowed in April. Exports were up by 7.8% compared with a year earlier. But imports rose by almost 13%, thanks largely to high oil prices.

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Output, demand and jobs

May 26th 2005
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2005	2006	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 1.5	Q4	+ 0.6	+ 2.5	+ 3.2	– 0.4	Q4	+ 1.8	Q1	5.1	Apr	5.6
Austria	+ 2.1	Q4	+ 1.1	+ 2.0	+ 2.0	+ 4.4	Feb	+ 0.8	Feb	4.6	Apr	4.5
Belgium	+ 1.8	Q1	nil	+ 2.0	+ 2.2	– 5.9	Mar	– 2.8	Feb	12.3	Apr†	12.4
Britain	+ 2.7	Q1	+ 2.0	+ 2.4	+ 2.2	– 1.8	Mar	+ 2.3	Apr	4.7	Mar††	4.8
Canada	+ 3.0	Q4	+ 1.7	+ 2.7	+ 3.0	+ 3.8	Feb	+ 6.3	Feb	6.8	Apr	7.2
Denmark	+ 2.9	Q4	+ 3.2	+ 2.1	+ 2.2	– 4.5	Mar	+ 3.7	Mar	5.9	Apr	6.5
France	+ 1.7	Q1	+ 0.8	+ 1.9	+ 2.0	– 0.5	Mar	+ 1.5	Mar	10.2	Mar	10.0
Germany	+ 1.1	Q1	+ 4.2	+ 0.9	+ 1.5	+ 1.9	Mar	nil	Mar	11.8	Apr§	10.5
Italy	– 0.2	Q1	– 1.8	+ 0.8	+ 1.4	– 2.9	Mar	– 0.8	Feb	8.0	Dec	8.2
Japan	+ 1.2	Q1	+ 5.3	+ 1.1	+ 1.8	+ 1.2	Mar	+ 0.7	Mar	4.5	Mar	4.7
Netherlands	– 0.3	Q1	– 0.6	+ 1.1	+ 1.7	– 2.9	Mar	– 2.7	Feb	6.6	Apr**	6.4
Spain	+ 3.3	Q1	+ 3.5	+ 2.7	+ 2.6	– 6.5	Mar	+ 1.8	Mar	10.2	Mar	11.1
Sweden	+ 2.0	Q4	+ 1.4	+ 2.8	+ 2.8	+ 4.4	Mar	+ 8.0	Mar	5.5	Mar†	5.8
Switzerland	+ 1.2	Q4	– 0.3	+ 1.2	+ 1.7	+ 4.7	Q4	– 0.3	Mar	3.8	Apr†	3.9
United States	+ 3.6	Q1	+ 3.1	+ 3.5	+ 3.2	+ 3.1	Apr	+ 3.0	Mar	5.2	Apr	5.5
Euro area	+ 1.4	Q1	+ 2.0	+ 1.4	+ 1.8	– 0.1	Mar	+ 1.4	Mar	8.9	Mar	8.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 3.6	Q4	+ 2.5	na	na	+ 1.1	Mar	+ 2.9	Mar	10.0	Apr†	10.6
Greece	+ 3.6	Q1	na	na	na	– 4.9	Mar	– 2.9	Jan	10.2	Dec	9.8
Iceland	+ 3.8	Q4	na	na	na	na		na		2.6	Mar†	3.5
Ireland	+ 2.8	Q4	na	na	na	– 3.4	Mar	+ 4.6	Mar	4.2	Apr	4.6
Luxembourg	+ 3.8	Q4	nil	na	na	+ 6.3	Feb	+ 2.6	Mar	4.6	Mar	4.2
New Zealand	+ 3.6	Q4	+ 2.4	na	na	+ 3.5	Q4	+ 5.8	Q1	3.9	Q1	4.2
Norway	+ 3.2	Q4	+ 6.1	na	na	– 7.0	Mar	– 2.7	Mar	4.5	Mar**	4.3
Portugal	+ 0.6	Q4	– 1.1	na	na	– 3.2	Mar	+ 3.0	Mar	7.5	Q1†	6.4

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ††Jan-Mar; claimant count rate 2.7% in Apr. §EU harmonised rate 9.5% in Mar. **Feb-Apr.

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Prices and wages

May 26th 2005
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2005	2006	latest		year ago	latest		year ago
Australia	+ 2.4	Q1	+ 2.0	+ 2.6	+ 2.7	+ 6.0	Q1	– 1.1	+ 4.5	Q1	+ 5.0
Austria	+ 2.6	Apr	+ 1.6	+ 2.0	+ 1.6	+ 2.6	Apr	+ 5.2	+ 2.2	Apr	+ 2.2
Belgium	+ 2.8	Apr	+ 1.9	+ 1.9	+ 1.7	+ 3.3	Apr	+ 2.6	+ 2.3	Jan	+ 1.9
Britain	+ 1.9	Apr*	+ 1.2	+ 1.8	+ 1.9	+ 3.2	Apr	+ 1.8	+ 4.6	Mar†	+ 5.1
Canada	+ 2.4	Apr	+ 1.6	+ 2.0	+ 2.1	+ 2.1	Mar	– 0.8	+ 2.5	Feb	+ 3.5
Denmark	+ 1.8	Apr	+ 0.8	+ 1.4	+ 1.7	+ 3.8	Apr	+ 1.6	+ 2.9	Q4	+ 3.5
France	+ 1.8	Apr	+ 2.1	+ 1.6	+ 1.6	+ 3.1	Mar	+ 0.3	+ 2.9	Q1	+ 2.8
Germany	+ 1.7	May	+ 2.0	+ 1.4	+ 1.1	+ 3.2	Apr	+ 2.4	+ 1.5	Mar	+ 1.5
Italy	+ 1.9	Apr	+ 2.3	+ 1.9	+ 1.9	+ 4.6	Mar	+ 0.7	+ 3.5	Mar	+ 2.8
Japan	– 0.2	Mar	– 0.1	nil	+ 0.3	+ 1.8	Apr	+ 0.6	+ 0.7	Mar	+ 2.2
Netherlands	+ 1.5	Apr	+ 1.4	+ 1.4	+ 1.0	+ 4.9	Mar	– 0.2	+ 0.7	Apr	+ 1.6
Spain	+ 3.5	Apr	+ 2.7	+ 2.9	+ 2.6	+ 5.0	Apr	+ 2.6	+ 2.6	Q4	+ 3.3
Sweden	+ 0.3	Apr	+ 0.3	+ 0.6	+ 1.5	+ 2.7	Apr	– 0.2	+ 2.6	Feb	+ 3.0
Switzerland	+ 1.4	Apr	+ 0.5	+ 1.2	+ 1.2	+ 1.3	Apr	+ 0.7	+ 0.9	2004	+ 1.4
United States	+ 3.5	Apr	+ 2.3	+ 2.8	+ 2.5	+ 4.8	Apr	+ 3.7	+ 2.7	Apr	+ 2.2
Euro area	+ 2.1	Apr	+ 2.0	+ 1.8	+ 1.6	+ 4.2	Mar	+ 0.4	+ 2.2	Q4	+ 2.1
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.2	Apr	– 0.4	na	na	+ 3.1	Apr	+ 0.5	+ 3.0	Q4	+ 4.2
Greece	+ 3.4	Apr	+ 2.9	na	na	+ 4.7	Mar	+ 2.1	na		na
Iceland	+ 2.9	May	+ 3.2	na	na	+ 6.6	Apr	+ 2.7	+ 6.7	Apr	+ 4.0
Ireland	+ 2.2	Apr	+ 1.4	na	na	– 2.3	Mar	– 5.1	+ 5.1	Q4	+ 4.5
Luxembourg	+ 2.5	Apr	+ 2.1	na	na	+13.9	Mar	+ 2.5	+ 0.6	Feb	+ 4.0
New Zealand	+ 2.8	Q1	+ 1.5	na	na	+ 4.2	Q1	– 0.6	+ 2.5	Q1	+ 2.2
Norway	+ 1.1	Apr	+ 0.4	na	na	+17.5	Apr	+12.3	+ 3.9	Q4	+ 3.9
Portugal	+ 2.1	Apr	+ 2.3	na	na	+ 4.4	Apr	+ 1.1	– 4.0	Mar	+ 1.9

*New series. RPI inflation rate 3.2% in Apr. †Jan-Mar.

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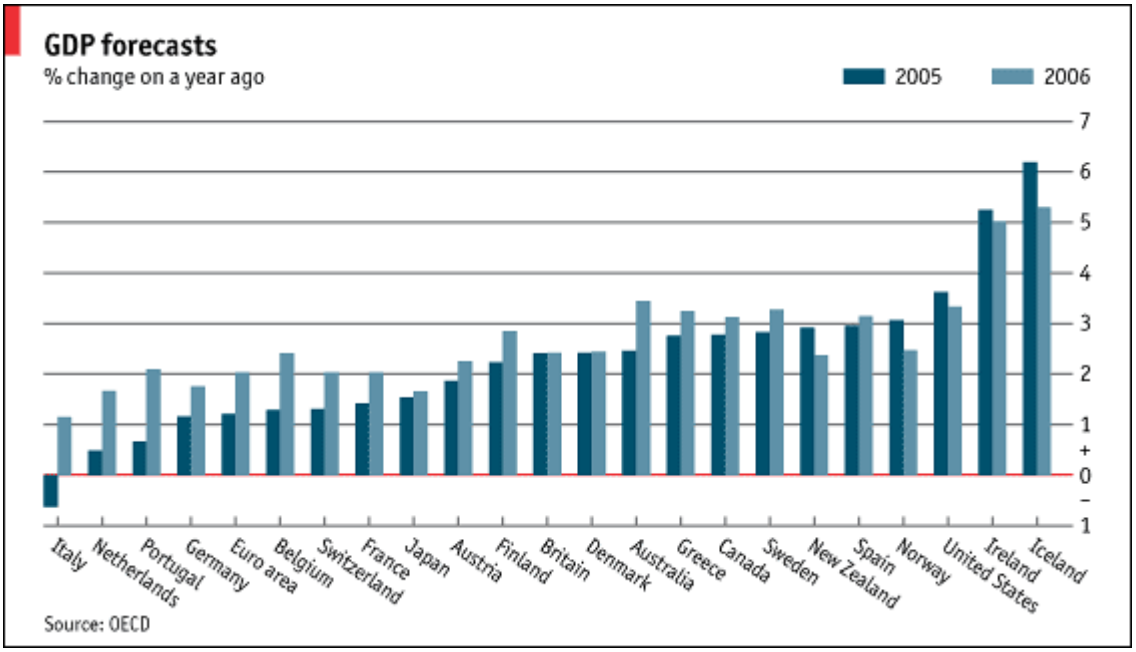
GDP forecasts

May 26th 2005
From The Economist print edition



The OECD has cut its growth forecasts, becoming especially gloomy about the euro area, which it now expects to grow by only 1.2% in 2005. Policymakers, it says, must address the euro area's “chronic pattern of weak resilience and diverging activity” as a matter of urgency. It gives warning that America's “unsustainable” current-account deficit, forecast to reach 6.7% of GDP in 2006, might lead to an abrupt weakening in the dollar.

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Money and interest rates

May 26th 2005
From The Economist print edition

	Money supply* % change on year ago			Interest rates % a year (May 25th 2005)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 2.8	+ 8.2	Mar	5.68	5.47	5.18	5.20	5.96	6.26
Britain	+ 4.8	+10.4	Apr	4.81	4.56	4.25	4.31	5.11	5.21
Canada	+13.5	+10.8	Apr	2.47	2.00	3.01	4.09	5.05	5.46
Denmark	+15.6	+ 9.5	Mar	2.18	2.25	2.17	3.27	4.44	4.90
Japan	+ 4.6	+ 1.9	Apr	0.02	0.02	0.08	1.23	1.47	1.35
Sweden	+ 3.3	+ 3.6	Mar	1.86	1.94	2.14	3.22	4.61	2.96
Switzerland	- 7.1	+ 2.1	Apr	0.75	0.27	0.98	2.01	2.75	1.99
United States	+ 2.0	+ 4.5	Apr	3.17	1.09	3.59	4.09	4.64	5.07
Euro area†	+ 9.3	+ 6.5	Mar	2.13	2.09	2.17	3.21	4.24	3.71

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. † Germany for bonds. Benchmarks: US 30-year 4.43%, Japan No. 269 1.22%. Central bank rates: US fed funds 3.00%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 4.75%. Sources: Bank of Canada, Commerzbank, Danske Bank, J.P. Morgan Chase, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

May 26th 2005
From The Economist print edition

2000=100

	May 17th	May 24th*	% change on one month	% change on one year
Dollar index				
All items	129.8	133.1	– 1.3	– 1.1
Food	125.4	129.3	– 0.5	– 5.9
Industrials				
All	135.5	138.0	– 2.3	+ 5.5
Nfa†	127.9	129.5	– 0.2	– 9.1
Metals	139.7	142.7	– 3.2	+14.7
Sterling index				
All items	107.0	110.4	+ 2.8	– 2.0
Euro index				
All items	95.0	97.8	+ 1.6	– 4.8
Yen index				
All items	129.1	132.8	+ 0.1	– 5.2
Gold				
$ per oz	420.73	417.85	– 4.2	+ 7.8
West Texas Intermediate				
$ per barrel	48.92	49.63	– 8.1	+20.6

* Provisional. † Non-food agriculturals.

Our commodity-price index was rebased in February 2005.

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Stockmarkets

May 26th 2005
From The Economist print edition

Market indices

	May 25th	2005 high	2005 low	% change on one week	% change on record high	% change on Dec 31st 2004 in local currency	% change on Dec 31st 2004 in $ terms
Australia (All Ordinaries)	4,047.3	4,255.8	3,905.5	+ 2.7	- 4.9	- 0.1	- 2.9
Austria (ATX)	2,692.5	2,781.6	2,415.0	+ 3.2	- 3.2	+10.7	+ 2.6
Belgium (Bel 20)	3,076.1	3,197.3	2,958.8	+ 0.7	-16.5	+ 4.9	- 2.8
Britain (FTSE 100)	4,971.5	5,060.8	4,783.6	+ 0.4	-28.3	+ 3.3	- 1.5
Canada (Toronto Composite)	9,509.5	9,927.2	9,006.2	+ 1.1	-16.5	+ 2.8	- 2.7
Denmark (KBX)	290.9	294.6	257.8	+ 1.1	- 3.6	+12.8	+ 4.5
France (SBF 250)	2,835.9	2,855.6	2,633.6	+ 0.7	-35.4	+ 7.7	- 0.2
(CAC 40)	4,100.3	4,124.4	3,816.1	+ 0.7	-40.8	+ 7.3	- 0.6
Germany (DAX)*	4,389.5	4,428.1	4,178.1	+ 1.5	-45.6	+ 3.1	- 4.4
Italy (S&P/MIB)	31,564.0	32,856.0	30,645.0	nil	-37.0	+ 2.1	- 5.4
Japan (Nikkei 225)	11,014.4	11,966.7	10,825.4	+ 1.7	-71.7	- 4.1	- 8.8
(Topix)	1,124.7	1,203.3	1,109.2	+ 1.4	-61.0	- 2.2	- 6.9
Netherlands (AEX)	366.0	379.8	347.0	+ 1.4	-47.8	+ 5.2	- 2.6
Spain (Madrid SE)	1,011.1	1,025.8	950.9	+ 0.2	-11.8	+ 5.4	- 2.3
Sweden (Affarsvarlden Gen)	235.1	240.4	218.9	+ 0.5	-41.3	+ 6.3	- 3.1
Switzerland (Swiss Market)	6,095.1	6,095.1	5,669.6	+ 1.6	-27.5	+ 7.1	- 0.8
United States (DJIA)	10,457.8	10,940.6	10,012.4	- 0.1	-10.8	- 3.0	- 3.0
(S&P 500)	1,190.0	1,225.3	1,137.5	+ 0.4	-22.1	- 1.8	- 1.8
(NASDAQ Comp)	2,050.1	2,152.2	1,904.2	+ 1.0	-59.4	- 5.8	- 5.8
Europe (FTSEurofirst 300)†	1,094.9	1,107.6	1,038.6	+ 0.7	-35.8	+ 5.1	- 2.6
Euro area (FTSE Euro 100)†	931.8	952.4	894.4	+ 0.6	-39.9	+ 3.4	- 4.2
World (MSCI)‡	1,141.3	1,193.0	1,115.0	+ 0.6	-21.2	- 2.4	- 2.4
World bond market (Citigroup)††	649.9	662.3	642.6	- 0.1	- 1.9	- 2.4	- 2.4

*Total return index. †In euro terms. ‡Morgan Stanley Capital International index includes individual markets listed above plus eight others, in $ terms. ††Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

May 26th 2005
From The Economist print edition

	Trade balance*, $bn latest 12 months	Current-account balance $bn latest 12 mths	Current-account balance The Economist poll % of GDP, forecast 2005	Current-account balance The Economist poll % of GDP, forecast 2006	Exchange rate trade-weighted† 2000=100 May 25th	Exchange rate trade-weighted† 2000=100 year ago	Currency units per $ May 25th	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2005‡
Australia	− 18.3 Mar	− 39.4 Q4	− 5.6	− 5.0	115.4	110.7	1.31	1.42	2.40	1.65	1.22	+ 0.9
Austria	− 0.1 Feb	− 0.4 Mar	− 0.6	− 0.8	106.0§	105.0	0.79	0.83	1.45	–	0.74	− 2.0
Belgium	+ 16.7 Mar	+ 12.0 Dec	+ 3.4	+ 3.3	108.0§	106.5	0.79	0.83	1.45	–	0.74	− 0.5
Britain	−108.9 Mar	− 49.0 Q4	− 2.6	− 2.6	99.5	101.9	0.55	0.55	–	0.69	0.51	− 2.9
Canada	+ 49.4 Mar	+ 23.4 Q4	+ 1.8	+ 1.5	113.6	105.3	1.27	1.37	2.32	1.59	1.18	+ 1.2
Denmark	+ 9.3 Mar	+ 7.4 Mar	+ 2.2	+ 2.1	106.2	105.6	5.91	6.15	10.8	7.45	5.49	+ 1.8
France	− 18.9 Mar	− 10.9 Mar	− 0.3	− 0.1	108.9§	107.3	0.79	0.83	1.45	–	0.74	− 3.0
Germany	+199.4 Mar	+109.0 Mar	+ 3.1	+ 2.9	110.6§	108.7	0.79	0.83	1.45	–	0.74	− 3.5
Italy	− 4.6 Mar	− 18.8 Mar	− 1.0	− 1.1	108.5§	107.0	0.79	0.83	1.45	–	0.74	− 4.4
Japan	+125.9 Mar	+170.1 Mar	+ 3.6	+ 3.6	87.7	86.3	108	112	197	136	–	− 6.1
Netherlands	+ 38.6 Mar	+ 33.9 Q1	+ 3.5	+ 3.5	108.8§	107.3	0.79	0.83	1.45	–	0.74	− 2.2
Spain	− 83.1 Mar	− 55.5 Feb	− 4.9	− 5.0	106.2§	105.1	0.79	0.83	1.45	–	0.74	+ 0.5
Sweden	+ 23.0 Apr	+ 28.0 Q4	+ 7.0	+ 6.4	98.4	98.6	7.29	7.52	13.3	9.18	6.77	+ 0.8
Switzerland	+ 7.0 Apr	+ 40.8 Q4	+11.9	+11.4	107.3	107.0	1.23	1.27	2.25	1.55	1.14	− 1.0
United States	−700.9 Mar	−665.9 Q4	− 6.2	− 6.0	84.6	88.6	–	–	1.83	1.26	0.93	− 4.1
Euro area	+ 74.9 Mar	+ 50.6 Feb	+ 0.5	+ 0.5	117.2	114.7	0.79	0.83	1.45	–	0.74	− 2.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 13.1 Mar	+ 7.9 Mar	na	na	109.5§	108.2	0.79	0.83	1.45	–	0.74	+ 1.3
Greece	− 32.6 Feb	− 10.7 Mar	na	na	105.1§	104.1	0.79	0.83	1.45	–	0.74	− 3.8
Iceland	− 0.7 Mar	− 1.0 Q4	na	na	99.2**	93.0	64.3	72.3	118	81.0	59.7	+ 1.1
Ireland	+ 40.6 Mar	− 0.8 Q4	na	na	114.8§	111.9	0.79	0.83	1.45	–	0.74	− 0.7
Luxembourg	− 4.6 Feb	+ 2.9 Q4	na	na	108.0§	106.5	0.79	0.83	1.45	–	0.74	− 0.8
New Zealand	− 3.0 Apr	− 6.2 Q4	na	na	137.4	123.2	1.40	1.62	2.56	1.76	1.30	+ 3.2
Norway	+ 40.9 Apr	+ 34.4 Dec	na	na	108.6	105.7	6.40	6.78	11.7	8.06	5.94	+ 14.4
Portugal	− 19.2 Feb	− 13.9 Mar	na	na	105.8**	105.2	0.79	0.83	1.45	–	0.74	− 5.3

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, March average. ‡OECD forecast. **IMF, January average.

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Exchange-rate forecasts

May 26th 2005
From The Economist print edition

Exchange-rate forecasts

Currency units per dollar

	May 24th	3-month	12-month
Euro area*	1.26	1.32	1.28
Japan	108	100	104
Australia	1.32	1.30	1.37
Britain†	1.83	1.89	1.83
Canada	1.26	1.24	1.28
Denmark	5.92	5.60	5.80
Sweden	7.29	6.97	7.15
Switzerland	1.23	1.16	1.18
China	8.28	7.80	7.50
Singapore	1.65	1.57	1.59
South Korea	1,001	970	1,050
Brazil	2.43	2.60	2.78
Mexico	11.0	11.6	12.3
Poland	3.32	2.94	2.93
Russia	28.0	27.0	27.1
South Africa	6.57	6.05	6.15

Source: J.P. Morgan Chase

*$ per € †$ per £

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Overview

May 26th 2005
From The Economist print edition

Malaysia's GDP grew by 5.7% in the year to the first quarter, outpacing expectations. Growth was only 2.5% in **Taiwan** over the same period. Despite this, Taiwan's unemployment fell to just over 4% in April, its lowest since March 2001.

In **Chile** and **Venezuela**, growth slowed in the year to the first quarter. But at 5.7% and 7.9% respectively, it remains healthy.

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Sexual equality

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From The Economist print edition

The World Economic Forum ranks 58 economies according to the "gender gap", a measure of how well an economy employs the talents of the female half of the population. The measure reflects job opportunities, pay, political representation, health care and education. The gap is narrowest in the Nordic countries, the forum reports. China, near the middle of the pile, outranks some much richer countries, such as Italy in 45th place.

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Economy

May 26th 2005
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.4	Q1	+16.0	Apr	+ 1.8	Apr	+64.1	Apr	+68.7	2004	659.1	Mar
Hong Kong	+ 7.1	Q4	+ 5.0	Q4	+ 0.5	Apr	−11.0	Mar	+16.0	Q4	122.6	Apr
India	+ 6.2	Q4	+ 7.2	Mar	+ 4.2	Mar	−28.9	Apr	− 3.9	Q4	136.0	Apr
Indonesia	+ 6.4	Q1	− 5.7	Jan	+ 8.1	Apr	+27.4	Mar	+ 2.9	Q4	34.7	Mar
Malaysia	+ 5.7	Q1	+ 5.0	Mar	+ 2.7	Apr	+22.8	Mar	+15.1	Q4	71.7	Mar
Philippines	+ 5.4	Q4	+ 2.4	Feb	+ 8.5	Apr	− 0.1	Feb	+ 2.1	Dec	14.1	Apr
Singapore	+ 2.5	Q1	+ 4.8	Apr	+ 0.4	Apr	+15.9	Apr	+29.2	Q1	116.6	Apr
South Korea	+ 2.7	Q1	+ 4.8	Mar	+ 3.1	Apr	+28.8	Apr	+27.5	Mar	206.3	Apr
Taiwan	+ 2.5	Q1	+ 0.6	Apr	+ 1.6	Apr	+ 3.6	Apr	+16.9	Q1	252.6	Apr
Thailand	+ 5.1	Q4	+ 7.1	Mar	+ 3.6	Apr	− 1.8	Mar	+ 3.6	Apr	47.7	Mar
Argentina	+ 8.4	Q4	+ 5.4	Mar	+ 8.8	Apr	+11.7	Mar	+ 3.0	Q4	19.6	Mar
Brazil	+ 4.9	Q4	+ 1.7	Mar	+ 8.1	Apr	+37.8	Apr	+14.3	Apr	61.5	Mar
Chile	+ 5.7	Q1	+ 2.3	Mar	+ 2.9	Apr	+ 9.1	Apr	+ 1.1	Q1	17.0	Apr
Colombia	+ 4.3	Q4	nil	Feb	+ 5.0	Apr	+ 0.8	Jan	− 1.1	Q4	13.1	Apr
Mexico	+ 2.4	Q1	− 4.7	Mar	+ 4.6	Apr	− 9.8	Apr	− 8.7	Q1	64.1	Mar
Peru	+ 4.0	Mar	+ 2.1	Mar	+ 2.0	Apr	+ 3.2	Mar	+ 0.4	Q1	13.6	Mar
Venezuela	+ 7.9	Q1	+ 9.5	Feb	+15.8	Apr	+22.1	Q4	+14.9	Q1	19.1	Feb
Egypt	+ 4.7	Q4	+ 3.3	2004†	+ 6.8	Feb	− 9.0	Q4	+ 4.3	Q4	16.4	Mar
Israel	+ 4.8	Q4	+ 3.3	Mar	+ 0.3	Apr	− 7.0	Apr	+ 0.5	Q4	26.7	Apr
South Africa	+ 4.7	Q4	+ 1.2	Mar	+ 3.4	Apr	− 2.7	Mar	− 7.0	Q4	14.3	Apr
Czech Republic	+ 4.3	Q4	+ 0.1	Mar	+ 1.6	Apr	+ 0.1	Mar	− 5.6	Q4	27.8	Apr
Hungary	+ 3.8	Q4	+ 3.9	Mar	+ 3.9	Apr	− 2.9	Q4	− 8.8	Q4	17.3	Apr
Poland	+ 3.9	Q4	− 1.0	Apr	+ 3.0	Apr	− 4.9	Feb	− 3.2	Feb	36.8	Mar
Russia	+ 4.9	Q1	+ 5.0	Apr	+13.4	Apr	+100.9	Apr	+60.1	Q4	140.5	Apr
Turkey	+ 6.3	Q4	+ 5.5	Mar	+ 8.2	Apr	−35.9	Mar	−16.5	Mar	38.1	Mar
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+ 5.8	Q4	+12.1	Mar	+ 4.7	Apr	− 1.7	Feb	− 1.4	Q4	1.9	Mar
Latvia	+ 8.6	Q4	+ 0.8	Mar	+ 6.9	Apr	− 2.8	Mar	− 1.7	Mar	2.0	Mar
Lithuania	+ 5.5	Q1	na		+ 3.2	Apr	− 2.9	Mar	− 1.6	Q4	3.5	Mar
Slovakia	+ 5.8	Q4	− 2.2	Mar	+ 2.7	Apr	− 1.7	Mar	− 1.8	Mar	17.6	Mar
Slovenia	+ 4.3	Q4	− 3.8	Mar	+ 2.7	Apr	− 1.6	Mar	− 0.3	Mar	8.7	Feb
Pakistan	+ 6.4	2004†	+28.3	Nov	+11.1	Apr	− 6.0	Mar	− 1.5	Q1	10.7	Mar
Saudi Arabia	+ 5.3	2004	na		+ 0.5	Feb	+68.5	2004	+51.5	Jun	23.3	Mar

*Excluding gold, except Singapore; IMF definition. †Year ending June.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank.

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Financial markets

May 26th 2005
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	May 25th		Dec 31st 2004	
	May 25th	year ago	May 25th	% a year		one week	in local currency	in $ terms
China	8.28	8.28	15.2	2.00	1,125.3	-2.8	- 15.4	- 15.4
Hong Kong	7.78	7.79	14.2	3.36	13,562.1	-0.5	- 4.7	- 4.8
India	43.5	45.1	79.7	5.15	6,597.6	+2.3	- 0.1	- 0.2
Indonesia	9,478	9,050	17,352	8.07	1,049.1	+0.8	+ 4.9	+ 2.7
Malaysia	3.80	3.80	6.96	2.84	870.1	-1.8	- 4.1	- 4.1
Philippines	54.4	55.7	99.7	4.88	1,869.5	-0.5	+ 2.6	+ 5.7
Singapore	1.66	1.71	3.03	2.00	2,160.5	+0.3	+ 4.6	+ 3.0
South Korea	1,001	1,174	1,832	3.51	941.3	+1.2	+ 5.1	+ 8.7
Taiwan	31.4	33.4	57.5	1.40	5,888.5	nil	- 4.1	- 3.1
Thailand	40.1	40.7	73.5	2.65	660.2	-1.8	- 1.2	- 4.4
Argentina	2.89	2.91	5.28	5.50	1,458.2	nil	+ 6.0	+ 9.2
Brazil	2.41	3.09	4.41	19.75	24,478.0	-1.7	- 6.6	+ 2.9
Chile	580	634	1,062	3.96	9,140.4	-0.5	+ 2.0	- 2.3
Colombia	2,330	2,736	4,265	7.17	4,741.7	-3.0	+ 9.1	+ 10.2
Mexico	10.9	11.5	20.0	9.69	13,057.8	+2.6	+ 1.1	+ 2.9
Peru	3.25	3.48	5.96	3.02	3,878.6	+0.8	+ 4.5	+ 5.3
Venezuela	2,628§	3,086§	4,812	11.85	22,665.0	-3.7	- 24.3	- 25.8
Egypt	5.80	6.19	10.61	9.85	36,482.1	-1.4	+ 48.4	+ 55.4
Israel	4.39	4.59	8.03	3.69	692.1	-0.2	+ 7.5	+ 5.8
South Africa	6.52	6.72	11.9	7.05	13,469.5	+1.5	+ 6.4	- 8.1
Czech Republic	24.3	26.9	44.5	1.77	1,121.3	+0.9	+ 8.7	- 0.2
Hungary	202	210	370	7.31	16,632.7	+1.9	+ 12.8	+ 0.8
Poland	3.33	3.74	6.09	5.43	26,279.5	+0.7	- 1.3	- 11.2
Russia	28.0	30.9	51.3	13.00	669.2‡	+3.4	+ 10.2	+ 9.0
Turkey	1.39	1.50	2.54	16.62	24,119.8	-4.3	- 3.4	- 6.1
EM (MSCI)*	1.00	1.00	1.83	na	543.3	+0.5	+ 0.2	+ 0.2
EMBI+†	1.00	1.00	1.83	na	339.1	+1.2	+ 2.9	+ 2.9

*Emerging Mkts. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Floating exchange rate.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank.

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